



**PROSPERITY**  
**REIT** 泓富產業信託

**Stock Code: 808**

**ANNUAL REPORT | 2013**



**Growing from  
Strength to Strength**

## About Prosperity REIT

Prosperity Real Estate Investment Trust (“**Prosperity REIT**”) is the first private sector real estate investment trust (“**REIT**”) listed on The Stock Exchange of Hong Kong Limited on 16 December 2005. Together with 9 Chong Yip Street acquired on 22 January 2014 (which is subsequent to the end of the reporting year of this annual report), Prosperity REIT owns a diverse portfolio of eight high-quality office, commercial, industrial/ office and industrial properties in the decentralized business districts of Hong Kong, with a total gross rentable area of about 1.35 million sq. ft..

Prosperity REIT is managed by ARA Asset Management (Prosperity) Limited (the “**REIT Manager**”).

## About The REIT Manager

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of Singapore-listed ARA Asset Management Limited (“**ARA**”). ARA, an affiliate of the Cheung Kong Group, is an Asian real estate fund management company focused on the management of public-listed REITs and private real estate funds.

The REIT Manager is responsible for the management and administration of Prosperity REIT, as well as the implementation of Prosperity REIT’s business strategies.



The design theme of this annual report features jadestones, an analogy to the properties of Prosperity REIT. The value of jadestones is enhanced by the grinding process, resonating Prosperity REIT’s efforts in asset enhancements to increase the value of its properties. Furthermore, the green color, often associated with environmental protection, symbolizes Prosperity REIT’s commitment to the ongoing implementation of green initiatives at its properties.

**CARING FOR  
ENVIRONMENT**

**CARING FOR  
STAFF**

**CARING FOR  
UNITHOLDERS**

**808  
PROSPERITY REIT**

## Our Mission

The REIT Manager is staffed with experienced professionals who are dedicated to managing the assets of Prosperity REIT for the benefit of the unitholders through proactive asset management and multi-dimensional growth strategies.



**CARING FOR  
COMMUNITY**



**CARING FOR  
TENANTS**

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The total distribution per unit of HK\$0.1495 is equal to a 10.4% year-on-year increase and represents an attractive distribution yield of 6.6%.

# Chairman's Statement

Dear Unitholders,

On behalf of the Board of Directors (the "**Board**") of ARA Asset Management (Prosperity) Limited, the manager of Prosperity Real Estate Investment Trust ("**Prosperity REIT**"), I am pleased to present the annual report of Prosperity REIT for the financial year ended 31 December 2013 (the "**Reporting Year**").

## Results and Distribution

Prosperity REIT enjoyed another prosperous year and recorded strong results in the Reporting Year.

Despite the slower overall rental growth in the office market, rental levels in Hong Kong's decentralized areas maintained a competitive edge, prompting companies to continue shifting into these areas. As our portfolio focuses on this market, in particular Kowloon East, the trend had a favourable effect on Prosperity REIT's results.

Distributable income for the Reporting Year rose 11.9% from the previous year, mainly due to increased rental revenue and stable finance costs. The valuation of our property portfolio rose mildly by 7.1% year-on-year ("**YoY**") to HK\$8,518 million. As at 31 December 2013, the net asset value per unit was HK\$4.57, a YoY increase of 7.8%.

I am pleased to announce a total distribution per unit ("**DPU**") of HK\$0.1495 to our unitholders. That is equal to a 10.4% YoY increase, and it represents an attractive distribution yield of 6.6%<sup>1</sup>.

## Market Review

Sentiment was dampened during the Reporting Year on concerns that the US Federal Reserve's tapering programme would lead to higher interest rates, as well as the HKSAR Government's property market cooling measures. But the stock market had started to stabilize in the second half of the year after the US Federal Reserve officials reiterated their intention to keep short-term interest rates low.

Despite the challenges, the strategic location of Prosperity REIT's properties enabled us to benefit from Kowloon East's transformation into a more maturing business district. With Hong Kong's positive economic prospects propelling demand for limited office space in Hong Kong's decentralized districts, we are well-positioned to further benefit from the office decentralization trend with our efforts in asset enhancement works to achieve higher rental rates.

## Operational Review

Prosperity REIT recorded positive results throughout the Reporting Year. The rental reversion rate was 34.9%, while the occupancy rate of our portfolio remains at an optimal level of 98.9%.

Note:

<sup>1</sup> Based on Prosperity REIT's closing unit price of HK\$2.26 as at 31 December 2013

Chairman's Statement (continued)

Prosperity REIT also bolstered its performance through proactive leasing strategies and good tenant relations. Asset enhancement works remained a crucial growth driver for Prosperity REIT. The recent transformation of Prosperity Place from an industrial/office building into a commercial building with zero waiver fee allowed us to bring in higher rent paying retail tenants, pushing up both the property value and revenue. The progress has been satisfactory.

### Prospects

Since our listing in 2005, Prosperity REIT has delivered stable distributions to our unitholders. We have also managed our portfolio with a high degree of professionalism. Our aim has always been to build a sustainable business by continuously enhancing our assets.

On 15 December 2013, Prosperity REIT announced its proposed acquisition of 9 Chong Yip Street, a Grade A office building in Kwun Tong. The acquisition was approved in an Extraordinary General Meeting held on 15 January 2014, and was completed on 22 January 2014. After completion of the acquisition, the gross rentable area of Prosperity REIT's portfolio was enlarged by 11.2% to 1,352,174 sq. ft.. We firmly believe that this yield-accretive acquisition will create operating synergies in our portfolio and thereby achieve economies of scale. It strengthens our presence in the Kowloon East district and diversifies the tenant base of Prosperity REIT's portfolio to achieve a more stable income stream.



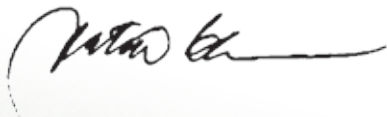
Barring unforeseen circumstances, we are confident that the acquisition will bring additional distributable income to our unitholders in the coming year. Backed by our continuous prudent and proactive management approach for optimizing returns, we are committed to delivering to unitholders stable revenue in the coming years.

Despite there are signs of economic recovery in Europe and the United States, the global picture is still uncertain. We remain cautiously optimistic in Hong Kong's economy in the year ahead, and will prudently avail ourselves of the opportunities it offers.

## Acknowledgements

I would like to conclude this statement by thanking my fellow Board members, our management team, staff members, service providers and business partners for the contributions they have made to Prosperity REIT's success.

I would also like to express my deep gratitude to you, our unitholders, for your continuing support and confidence in us throughout the year.



**Chiu Kwok Hung, Justin**

*Chairman*

**ARA Asset Management (Prosperity) Limited**  
as manager of Prosperity REIT

Hong Kong, 4 March 2014



## Yield Accretive Acquisition Strengthens Kowloon East Presence



### Profile of the Chong Yip Property

Location	9 Chong Yip Street, Kwun Tong, Kowloon
Year of Completion	2004
Gross Rentable Area (sq. ft.)	136,595
No. of Car Park Spaces	64 private car parking spaces 5 motor cycle parking spaces 4 loading/unloading spaces
Purchase Consideration (HK\$ million)	1,010
Appraised Value (HK\$ million) <sup>1</sup>	1,064
Developer	Hutchison Whampoa Limited
Number of Tenants <sup>1</sup>	41
Occupancy Rate <sup>1</sup>	94.1%

Note:

<sup>1</sup> As at 30 September 2013



Consistent with the REIT Manager's investment strategy, Prosperity REIT acquired the Chong Yip Property (as defined in the circular dated 16 December 2013) at a consideration of HK\$1,010 million, representing a 5.08% discount to the appraised value. With the support of 94.0% independent unitholders at the extraordinary general meeting held on 15 January 2014, the acquisition completed on 22 January 2014.

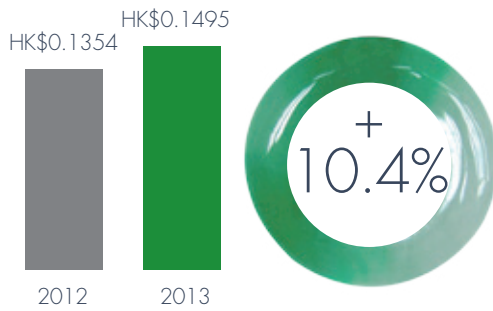
The Chong Yip Property is a Grade A office building strategically located in the maturing decentralized business district of Kowloon East ("CBD2") with many new high specifications office developments. It is in close proximity to the Ngau Tau Kok MTR station and is easily accessible by private and public transportation such as taxis and franchised buses. Further, it is adjacent to one of Prosperity REIT's existing property named Prosperity Center and is only 10 minutes away from another Prosperity REIT's flagship property, Prosperity Place.

Fully funded by debt, the acquisition is expected to be yield accretive and improve the earnings of Prosperity REIT and DPU to existing unitholders. With the addition of the Chong Yip Property, the gross rentable area of Prosperity REIT's portfolio expanded by 11.2%. Prosperity REIT is poised to benefit from the increased portfolio size that creates a stronger platform to spread fixed operating costs over a larger portfolio, thus achieving greater operating synergies and economies of scale in operation. The broadened tenant base resulting from the acquisition also reinforces Prosperity REIT's stable income stream in the long term.

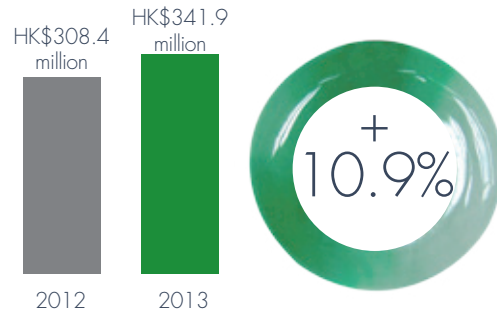


# Performance Highlights in 2013

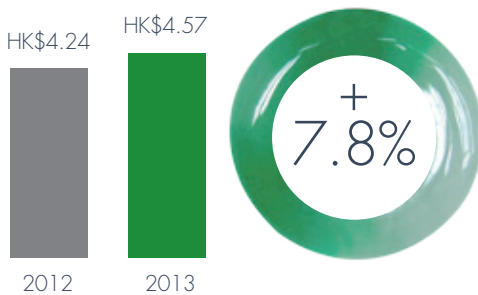
### Distribution Per Unit<sup>1</sup>



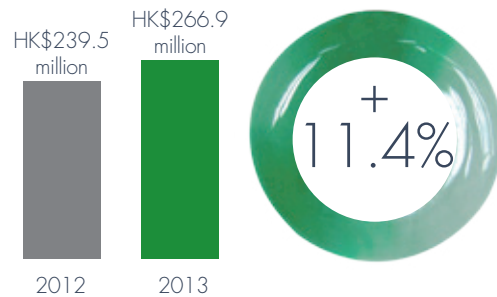
### Revenue<sup>1</sup>



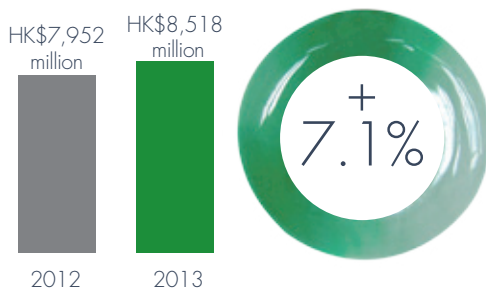
### Net Asset Value Per Unit<sup>2</sup>



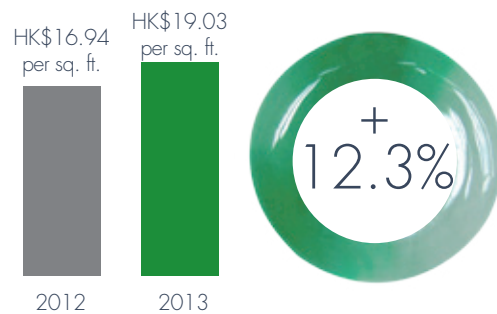
### Net Property Income<sup>1</sup>



### Property Valuation<sup>2</sup>



### Average Effective Unit Rent<sup>1</sup>



**Notes:**

<sup>1</sup> For the year ended 31 December

<sup>2</sup> As at year end

# Trust Review

## Diversified Property Portfolio

As at 31 December 2013, Prosperity REIT had a diversified portfolio comprising seven high-quality properties in the decentralized business districts of Hong Kong. The portfolio comprised all, or a portion of, two Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building, with total gross rentable area of about 1.22 million sq. ft.. All properties in Prosperity REIT's portfolio are well served by multiple transportation networks.

These seven properties were completed during the period from 1995 to 2001. As at 31 December 2013, the appraised value of the portfolio was HK\$8,518 million. Grade A office buildings, commercial buildings, industrial/office buildings and industrial building accounted for 54.8%, 21.9%, 19.9% and 3.4% of the total appraised value respectively.

	Valuation HK\$ million as at 31 December 2013	Valuation HK\$ million as at 31 December 2012	Percentage change Increase/(Decrease)
<b>Grade A Office</b>			
The Metropolis Tower	2,943	2,773	6.1%
Prosperity Millennia Plaza	1,725	1,632	5.7%
<b>Commercial</b>			
Harbourfront Landmark (portion)	461	436	5.7%
Prosperity Place	1,402	1,301	7.8%
<b>Industrial/Office</b>			
Trendy Centre	912	818	11.5%
Prosperity Center (portion)	786	726	8.3%
<b>Industrial</b>			
New Treasure Centre (portion)	289	266	8.6%
<b>Total</b>	<b>8,518</b>	<b>7,952</b>	<b>7.1%</b>

Trust Review (continued)

## Effective Lease Management

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate maintained at a high level of 98.9% as at 31 December 2013. The portfolio's average effective unit rent increased by 12.3% YoY to HK\$19.03 per sq. ft., with the rental reversion rate at an exceptional 34.9% for the leases successfully renewed in 2013.

As at 31 December 2013, leases expiring in 2014 accounted for 39.8% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2014 to deliver stable distribution to unitholders.

## Lease Expiry Profile by Gross Rental Income (as at 31 December 2013)

	31 December 2013 and 2014	2015	2016 and Beyond
The Metropolis Tower	15.7%	54.9%	29.4%
Prosperity Millennia Plaza	51.8%	31.9%	16.3%
Harbourfront Landmark (portion)	99.9%	0.1%	0.0%
Prosperity Place	47.9%	31.7%	20.4%
Trendy Centre	43.6%	37.8%	18.6%
Prosperity Center (portion)	39.4%	33.5%	27.1%
New Treasure Centre (portion)	45.3%	45.8%	8.9%
Portfolio	39.8%	38.9%	21.3%

## Well-balanced Tenant Mix

As at 31 December 2013, Prosperity REIT had a total of 550 tenants. The tenant base included a number of enterprises that have benefited from Hong Kong's resilient economy. Most of these tenants were from business sectors such as electronics, technology, manufacturing, trading, as well as textiles and garments.

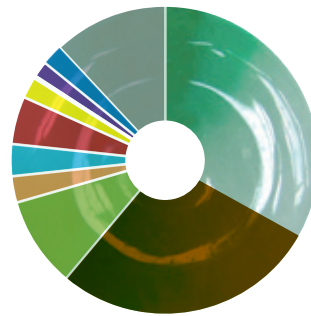
Following the wholesale conversion approval for Prosperity Place, the REIT Manager had successfully committed a number of retail and services trade tenants during the Reporting Year. These first-time retail and services trade tenants accounted for approximately 3.9% of our portfolio's gross rentable area as at 31 December 2013.

Over 60% (in terms of gross rentable area) of our tenants are medium-to-large sized enterprises. It is the long-term goal of the REIT Manager to maintain a well-balanced mix of tenants with credible financial standing to ensure a stable stream of rental income.

## Trade Mix by Gross Rentable Area

(as at 31 December 2013)

Electronic/Technology	33.3%
Manufacturing/Trading	27.9%
Textile/Garment	9.4%
Logistics	3.0%
Advertising/Media	3.3%
Consultancy/Research	4.9%
Finance/Investment	2.1%
Real Estate	0.3%
Retail	1.8%
Services Trade	2.1%
Others	11.9%



Size of Tenant Premises on Gross Rentable Area (as at 31 December 2013)	Percentage
Above 10,000 sq. ft.	19.6%
5,001 sq. ft.–10,000 sq. ft.	13.0%
2,001 sq. ft.–5,000 sq. ft.	27.8%
1,001 sq. ft.–2,000 sq. ft.	25.8%
1,000 sq. ft. and below	13.8%
<b>Total</b>	<b>100.0%</b>

Trust Review (continued)

## Close-to-Zero Rent Delinquency Rate

During the Reporting Year, Prosperity REIT maintained a close-to-zero rent delinquency rate. This was attributed to its strong tenant base and effective lease management mechanism.

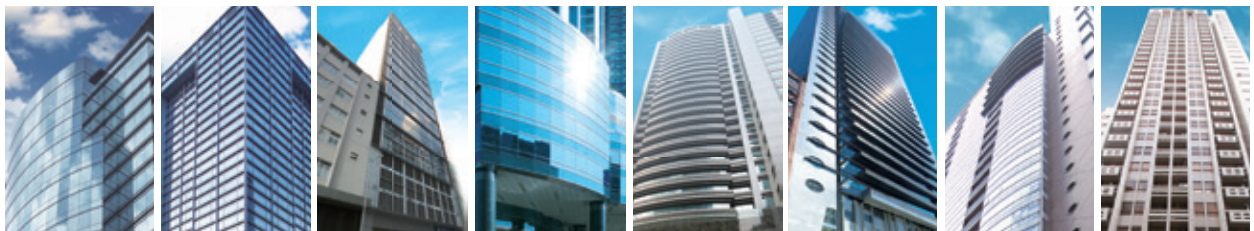
## Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, a number of asset enhancement works were carried out at Prosperity Place and Trendy Centre. Asset enhancement initiatives will continue in 2014 across the entire portfolio, with prudently planned payback periods.

## Outlook

Since its listing on 16 December 2005 (the “**Listing Date**”), Prosperity REIT has met challenges posed by various economic uncertainties, and has achieved favourable results by managing its portfolio with professionalism. Supported by Goodwell-Prosperity Property Services Limited, which provides leasing and management services for properties under Prosperity REIT’s portfolio, the REIT Manager will continue to work towards generating stable returns to the unitholders in 2014 through our proven expertise in professional management.

## Portfolio Map



**1** The Metropolis Tower   
 **2** Prosperity Millennia Plaza   
 **3** 9 Chong Yip Street\*   
 **4** Harbourfront Landmark Property (portion)   
 **5** Prosperity Place   
 **6** Trendy Centre   
 **7** Prosperity Center Property (portion)   
 **8** New Treasure Centre Property (portion)

Grade A Office

Commercial

Industrial/Office

Industrial

Note:

\* Acquisition of 9 Chong Yip Street was completed on 22 January 2014.

Trust Review (continued)

## Prosperity Place



BEFORE

A 400-square-foot green wall was installed in the ground floor lobby to provide an environmental friendly workplace as well as instill an aesthetic feel in the area.



AFTER



AFTER



BEFORE

The passenger lift lobbies and common corridors on selected floors were renovated to attract high quality commercial tenants.



BEFORE

The lift lobbies on the car park floors were renovated to create a retail outlook.



AFTER





The replacement of the concrete parapet wall on 3/F flat roof with a tempered glass wall was completed to enhance marketability to commercial tenants.

## Trendy Centre

Cargo lift lobbies were renovated to increase the competitiveness of the building.



The common washrooms were renovated to improve the working environment for the tenants.



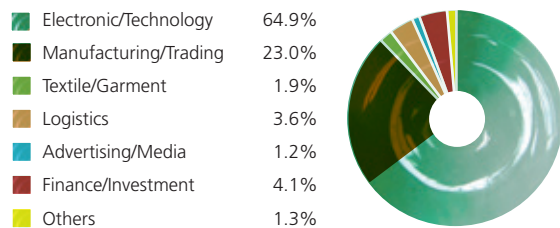
## Prosperity REIT Portfolio

### The Metropolis Tower

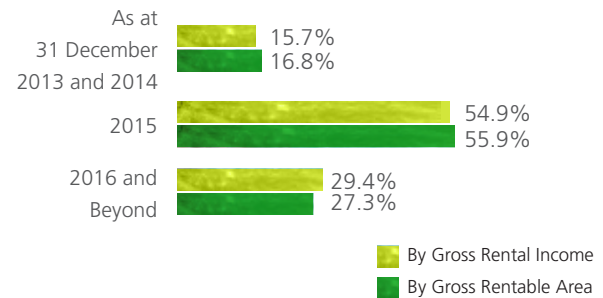
*Location : 10 Metropolis Drive, Hung Hom, Kowloon*  
*Year of Completion : 2001*  
*Gross Rentable Area (sq. ft.) : 271,418*  
*No. of Car Park Spaces : 98*  
*Appraised Value (HK\$ million) : 2,943*  
*Number of Tenants : 86*



### The Metropolis Tower Trade Mix by Gross Rentable Area (as at 31 December 2013)



### Lease Expiry Profile of The Metropolis Tower (as at 31 December 2013)



Occupying a prime location in the commercial hub of Hung Hom and featuring spectacular sea view of the Victoria Harbour, The Metropolis Tower enjoys convenient transportation access, with the Hung Hom MTR East Rail Station, bus terminals and taxi stations nearby. It is also close to the Cross Harbour Tunnel, the busiest undersea vehicular tunnel in Hong Kong.

The Metropolis Tower is an established landmark in Hung Hom forming part of a 1.42 million sq. ft. development comprising of a Grade A office tower, a popular shopping mall, hotel and serviced apartments. Surrounding public amenities include the Hong Kong Coliseum, The Hong Kong Polytechnic University and a cluster of renowned hotels and shopping malls.

Column-free floor plate, a raised floor system, a fibre optic backbone, a back-up power supply and satellite communication are among the building's modern architectural features and facilities.

As at 31 December 2013, the occupancy rate of the building was 97.6%.

### Top 5 Tenants<sup>1</sup>

Tenants	Trade	GRA* (sq. ft.)	% of GRA*	% of GRI**
Canon Hongkong Company Limited	Electronic/Technology	55,535	21.0%	19.4%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.9%	7.1%
Heidelberg Hong Kong Limited	Manufacturing/Trading	11,885	4.5%	4.3%
Presidio Production Limited	Electronic/Technology	11,319	4.3%	4.0%
Interush Limited	Electronic/Technology	9,200	3.5%	3.8%

Notes:

\* Gross rentable area \*\* Gross rental income

<sup>1</sup> Top 5 tenants are measured based on tenant's contribution to the total rental income of the property as at 31 December 2013.

Prosperity REIT Portfolio (continued)

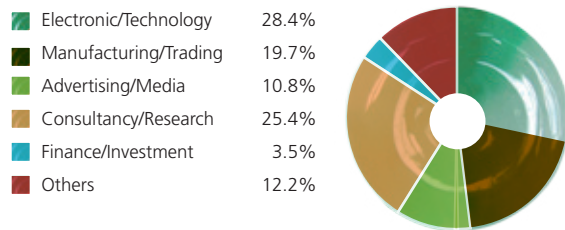
## Prosperity Millennium Plaza

*Location : 663 King's Road, North Point, Hong Kong*  
*Year of Completion : 1999*  
*Gross Rentable Area (sq. ft.) : 217,955*  
*No. of Car Park Spaces : 43*  
*Appraised Value (HK\$ million) : 1,725*  
*Number of Tenants : 71*



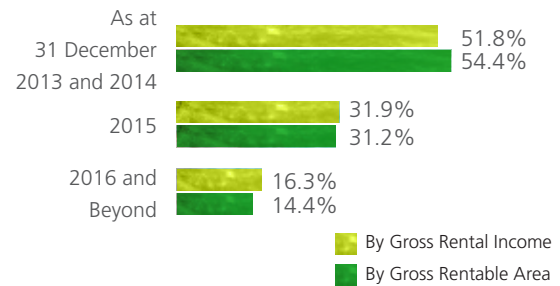
### Prosperity Millennium Plaza Trade Mix by Gross Rentable Area

(as at 31 December 2013)



### Lease Expiry Profile of Prosperity Millennium Plaza

(as at 31 December 2013)



With panoramic sea view of the Victoria Harbour and strategically located in the Island East office district, Prosperity Millennium Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices. Served by a convenient transportation network, the building is a mere two minutes away from the Quarry Bay MTR Station by foot and two minutes from the Eastern Harbour Crossing Tunnel by car.

The entire Island East district has been transformed into an upscale business district, featuring a blend of premium office properties and sophisticated retail outlets. There is an increasing number of international tenants who are now moving into this district from Central and other traditional prime office areas. Accordingly, the Island East Grade A buildings have seen their tenant bases enriched with a solid high-end tenant profile.

As at 31 December 2013, the occupancy rate of the building was 99.1%.

## Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
JDB Holdings Limited	Consultancy/Research	17,181	8.0%	9.1%
Computer and Technologies International Limited	Electronic/Technology	16,628	7.7%	7.2%
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.5%	7.0%
Alcatel-Lucent China Limited	Manufacturing/Trading	8,414	3.9%	4.2%
Jobs DB Hong Kong Limited	Consultancy/Research	7,818	3.6%	4.2%

Prosperity REIT Portfolio (continued)

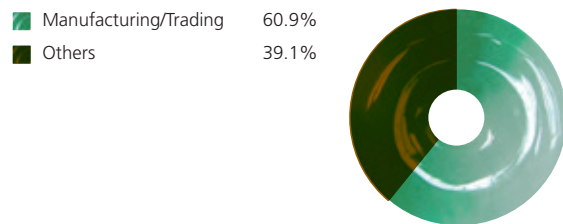
## Harbourfront Landmark Property (Portion of Harbourfront Landmark)

*Location* : 11 Wan Hoi Street, Hung Hom, Kowloon  
*Year of Completion* : 2001  
*Gross Rentable Area (sq. ft.)* : 77,021  
*No. of Car Park Spaces* : –  
*Appraised Value (HK\$ million)* : 461  
*Number of Tenants* : 4



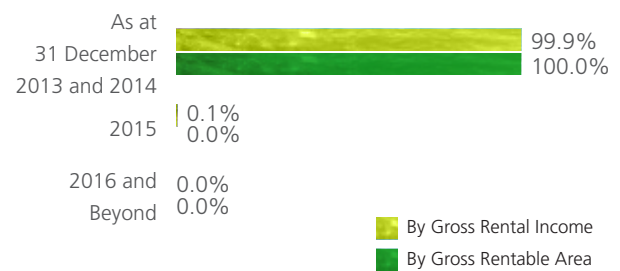
**Harbourfront Landmark Property Trade Mix by Gross Rentable Area**

(as at 31 December 2013)



**Lease Expiry Profile of Harbourfront Landmark Property**

(as at 31 December 2013)



Harbourfront Landmark Property is a three-storey commercial area on the podium level of Harbourfront Landmark, a stunning 70-storey skyscraper on the harbour front of the Kowloon peninsula, offering breathtaking sea view of the Victoria Harbour. The property is adjacent to two Grade A office tower blocks and the renowned five-star Harbour Grand Kowloon Hotel.

Harbourfront Landmark Property is just minutes away from the Hung Hom MTR East Rail Station, a transportation hub which provides direct access to Tsim Sha Tsui, the New Territories and Mainland China. The building is also located within a five-minute drive to the Tsim Sha Tsui East district via the Hung Hom Bypass. Moreover, the nearby Cross Harbour Tunnel allows quick access to the Hong Kong Island. The Hung Hom pier is within a three-minute walking distance from the building, with regular ferry services to and from the Hong Kong Island business districts at North Point pier.

As at 31 December 2013, the occupancy rate of the property was 100.0%.

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Universal Entertainment Hong Kong Limited	Others	30,151	39.1%	41.1%
Hallmark Cards (HK) Limited	Manufacturing/Trading	29,063	37.8%	37.2%
UP Global Sourcing Hong Kong Limited	Manufacturing/Trading	17,807	23.1%	21.6%

Prosperity REIT Portfolio (continued)

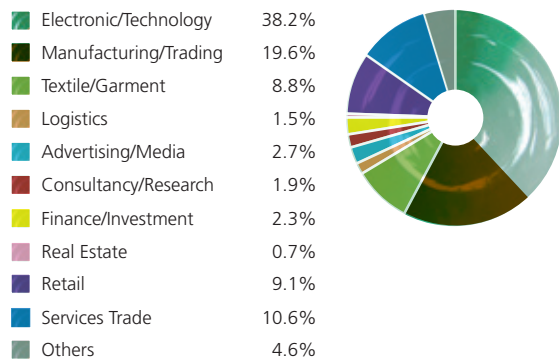
## Prosperity Place

*Location : 6 Shing Yip Street, Kwun Tong, Kowloon*  
*Year of Completion : 1996*  
*Gross Rentable Area (sq. ft.) : 240,000*  
*No. of Car Park Spaces : 83*  
*Appraised Value (HK\$ million) : 1,402*  
*Number of Tenants : 119*

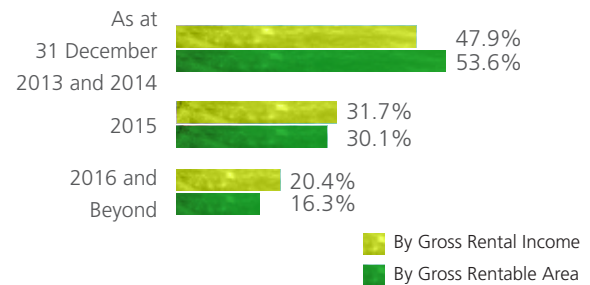




**Prosperity Place  
Trade Mix by Gross Rentable Area**  
(as at 31 December 2013)



**Lease Expiry Profile of Prosperity Place**  
(as at 31 December 2013)



Prosperity Place is located in the Kwun Tong district of Kowloon East. The district has recently experienced tremendous growth as a new commercial hub. The building is close to the Eastern Cross Harbour Tunnel, and the Kwun Tong MTR Station is just a three-minute walk away.

With new Grade A office buildings on the increase and re-development projects being carried out, Kowloon East has seen significant urban improvements on a number of fronts, including prominent modern architecture and dynamic shopping malls, along with leisure and public spaces. With the implementation of Kai Tak Development and the Kwun Tong Town Centre Renewal Projects by the Government, the district shall undergo significant change by uplifting of transport infrastructures. Both public and private sectors' developments and community facilities are scheduled to be completed in the coming years. Due to these attractive developments, prestigious tenants from the traditional core business districts have moved into the area.

In order to cope with the intense competition from new office buildings in the district, a refurbishment project to revamp Prosperity Place began in 2008 to renovate the ground floor lobby, common lift lobbies, passenger lift cars, corridors on the upper floors, washrooms and lower portion of the façade, to erect a green roof garden, and to upgrade the lift controller systems.

The special waiver to convert Prosperity Place from industrial/office use to commercial use was executed in the fourth quarter of 2012. The relevant additions and alterations works for obtaining approval for the special waiver had also been completed in the first quarter of 2013. In order to further uplift the commercial image of Prosperity Place, installation of a green wall at the ground floor lobby, replacement of the lift controller system for one cargo lift, installation of the Elevator Management System (EMS), renovation of the passenger lift lobbies and common corridors on selected floors, replacement of the concrete parapet wall on 3/F flat roof with a tempered glass wall, and the renovation of the lift lobbies on the car park floors had been carried out and completed. These works have upgraded the building's image and attracted more high quality commercial tenants.

Following the wholesale conversion approval, retail and services trade tenants had been introduced to Prosperity Place during the Reporting Year. As at 31 December 2013, these new tenants accounted for approximately 19.7% of Prosperity Place's gross rentable area.

As at 31 December 2013, the occupancy rate of the building was 99.3%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
I-Dance Enterprise Limited	Services Trade	10,000	4.2%	4.7%
Evlite Electronics Company Limited	Electronic/Technology	11,819	5.0%	4.0%
KC Korea (International) Limited	Retail	5,402	2.3%	2.9%
Asus Technology (Hong Kong) Limited	Services Trade	5,432	2.3%	2.6%
Dartslive International Limited	Others	5,402	2.3%	2.5%

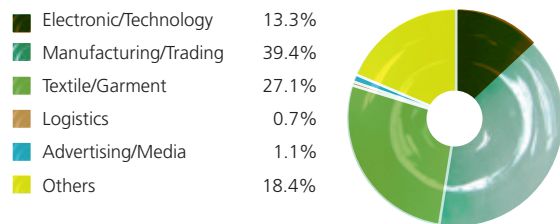
Prosperity REIT Portfolio (continued)

## Trendy Centre

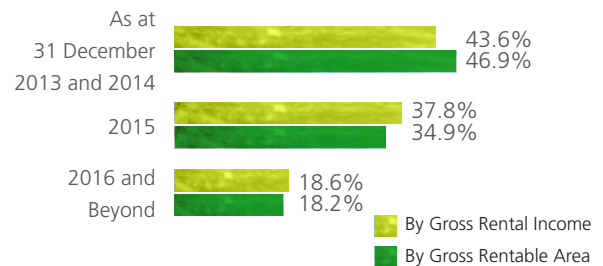
*Location : 682 Castle Peak Road, Lai Chi Kok, Kowloon*  
*Year of Completion : 1998*  
*Gross Rentable Area (sq. ft.) : 173,764*  
*No. of Car Park Spaces : 79*  
*Appraised Value (HK\$ million) : 912*  
*Number of Tenants : 153*



**Trendy Centre**  
**Trade Mix by Gross Rentable Area**  
 (as at 31 December 2013)



**Lease Expiry Profile of Trendy Centre**  
 (as at 31 December 2013)



Situated on Castle Peak Road in Lai Chi Kok, Trendy Centre is located in the heart of Kowloon’s garment and fashion wholesaling district. It has close proximity to the Container Terminals of the Kwai Chung-Tsing Yi basin, which have a total handling capacity of over 19 million TEUs (“twenty-foot equivalent units”) annually.

Moreover, major transportation arteries, namely the Route 3 expressway incorporating the Ting Kau Bridge and Kong Sham Western Highway and the Route 8 expressway incorporating the Tsing Ma Bridge and Stonecutters Bridge, are close-by, providing quick access to the Hong Kong International Airport, as well as the Mainland border crossings. The Lai Chi Kok MTR Station is just a convenient five-minute stroll from Trendy Centre.

In order to enhance the working environment of our tenants and increase competitiveness of the building, renovation works for the common washrooms and cargo lift lobbies on typical floors were completed in 2013.

As at 31 December 2013, the occupancy rate of the building was 99.2%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
CEH Textiles Limited	Textile/Garment	6,849	4.0%	3.6%
Madrid Group Limited	Others	708	0.4%	3.0%
Dodomi Beauty & Energy Limited	Manufacturing/Trading	4,514	2.6%	2.2%
STI Asia Pacific Limited	Manufacturing/Trading	898	0.5%	2.1%
GFSI, Inc.	Textile/Garment	820	0.5%	2.0%

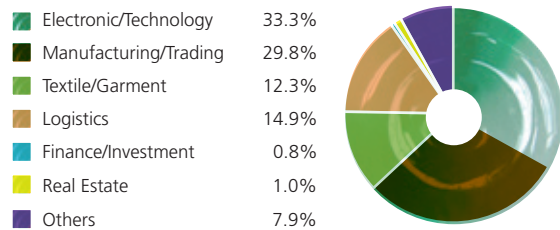
Prosperity REIT Portfolio (continued)

## Prosperity Center Property (Portion of Prosperity Center)

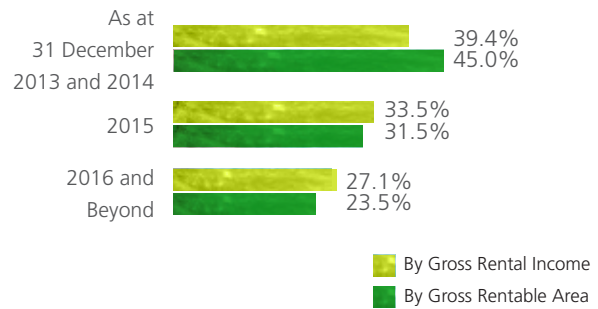
*Location* : 25 Chong Yip Street, Kwun Tong, Kowloon  
*Year of Completion* : 1999  
*Gross Rentable Area (sq. ft.)* : 149,253  
*No. of Car Park Spaces* : 105  
*Appraised Value (HK\$ million)* : 786  
*Number of Tenants* : 69



**Prosperity Center Property  
Trade Mix by Gross Rentable Area**  
(as at 31 December 2013)



**Lease Expiry Profile of Prosperity Center Property**  
(as at 31 December 2013)



Prosperity Center Property is strategically located in the Kowloon East business district and is less than a three-minute walk from the Ngau Tau Kok MTR Station.

The Kowloon East area has evolved into a modern commercial hub. Prosperity Center Property has capitalized on the trend and gained new quality tenants. The industrial/office building features a modern curtain wall, 5 to 7.5 kPa floor loading, split-type air conditioning systems for all units, high ceilings, sub-divisible floor plates, cargo lifts, high-grade passenger lifts, ample loading/unloading bays, and related facilities.

As at 31 December 2013, the occupancy rate of the property was 99.2%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Opsec Delta (HK) Limited	Manufacturing/Trading	10,528	7.1%	9.8%
Senko Advanced Components (HK) Limited	Electronic/Technology	10,528	7.1%	9.3%
Aurora Fashions Asia Limited	Textile/Garment	10,528	7.1%	9.0%
Watch Logistic International Limited	Logistics	4,415	3.0%	3.5%
Intersport Asia Pacific Limited	Manufacturing/Trading	4,597	3.1%	3.4%

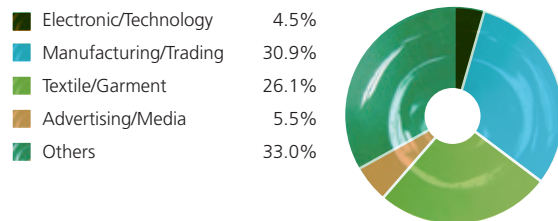
Prosperity REIT Portfolio (continued)

## New Treasure Centre Property (Portion of New Treasure Centre)

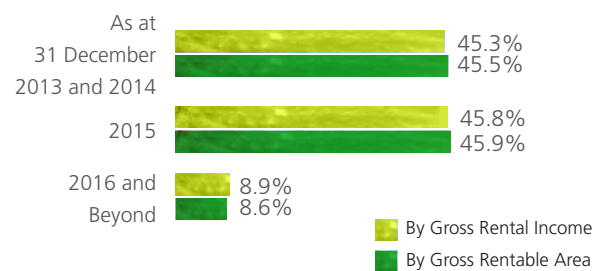
*Location : 10 Ng Fong Street, San Po Kong, Kowloon*  
*Year of Completion : 1995*  
*Gross Rentable Area (sq. ft.) : 86,168*  
*No. of Car Park Spaces : 22*  
*Appraised Value (HK\$ million) : 289*  
*Number of Tenants : 48*



### New Treasure Centre Property Trade Mix by Gross Rentable Area (as at 31 December 2013)



### Lease Expiry Profile of New Treasure Centre Property (as at 31 December 2013)



New Treasure Centre Property is located in San Po Kong, Kowloon, an established industrial area well served by extensive transportation links, the north-south Route 2 and west-east Route 7 expressways, MTR, buses and public light buses. The building is conveniently located within five minutes walking distance to the Diamond Hill MTR Station.

The prestigious design of the ground floor main lobby coupled with the eminent concierge service counter distinguishes New Treasure Centre Property from the other older industrial buildings in the vicinity. The building has solid industrial building features including 7.5 kPa floor loading, split-type air conditioning systems for every unit, sub-divisible floor plates, cargo lifts, high-grade passenger lifts, ample loading/unloading bays, and related facilities. The multi-level lorry and car parking area is fastidiously maintained, with generous illumination.

As at 31 December 2013, the occupancy rate of the property was 100.0%.

## Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Goodwell Property Management Limited*	Others	12,404	14.4%	12.8%
Reich Pharm Limited	Others	3,606	4.2%	4.3%
Union Apparel International Limited	Textile/Garment	2,649	3.1%	3.4%
Macrotech Security & Management Services Limited	Others	2,496	2.9%	3.3%
Newmarket Engineering (Holding) Limited	Others	2,496	2.9%	3.1%

Note:

\* Goodwell Property Management Limited is a connected person of Prosperity REIT within the meaning of the REIT Code.





# Management Discussion and Analysis

Below is a summary of Prosperity REIT's performance for the Reporting Year:

## Performance Highlights

	Year ended 31 December 2013	Year ended 31 December 2012	Percentage change Increase/(Decrease)
Distribution per unit ("DPU")	<b>HK\$0.1495</b>	HK\$0.1354	10.4%
<b>Key financial figures</b>	<b>As at 31 December 2013</b>	<b>As at 31 December 2012</b>	<b>Percentage change Increase/(Decrease)</b>
Net asset value per unit	<b>HK\$4.57</b>	HK\$4.24	7.8%
Property valuation	<b>HK\$8,518 million</b>	HK\$7,952 million	7.1%
Gearing ratio*	<b>20.9%</b>	22.4%	(1.5%) <sup>1</sup>
<b>Operation data</b>	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2012</b>	<b>Percentage change Increase/(Decrease)</b>
Revenue	<b>HK\$341.9 million</b>	HK\$308.4 million	10.9%
Net property income	<b>HK\$266.9 million</b>	HK\$239.5 million	11.4%
Average effective unit rent	<b>HK\$19.03 per sq. ft.</b>	HK\$16.94 per sq. ft.	12.3%
Occupancy rate (as at 31 December)	<b>98.9%</b>	98.5%	0.4% <sup>1</sup>
Rental reversion rate	<b>34.9%</b>	36.1%	(1.2%) <sup>1</sup>
Cost-to-revenue ratio	<b>21.9%</b>	22.3%	(0.4%) <sup>1</sup>

Notes:

\* This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

<sup>1</sup> Absolute change

Management Discussion and Analysis (continued)

## Operations Review

As at 31 December 2013, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, two Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. As at 31 December 2013, the total gross rentable area was 1,215,579 sq. ft., with a total of 430 car park spaces.

Information about the properties in the portfolio, as at 31 December 2013, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ Million	Occupancy rate
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	2,943	97.6%
Prosperity Millennia Plaza	North Point	217,955	43	1,725	99.1%
<b>Commercial</b>					
Harbourfront Landmark (portion)	Hung Hom	77,021	—	461	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,402	99.3%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	912	99.2%
Prosperity Center (portion)	Kwun Tong	149,253	105	786	99.2%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	289	100.0%
<b>Total</b>		<b>1,215,579</b>	<b>430</b>	<b>8,518</b>	<b>98.9%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A high occupancy rate of 98.9% was recorded as at 31 December 2013, reflecting the effectiveness of the leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 21.9%.

	Occupancy rate (%) As at 31 December 2013	Occupancy rate (%) As at 31 December 2012	Percentage change <sup>2</sup> Increase/(Decrease)
<b>Grade A Office</b>			
The Metropolis Tower	97.6	97.9	(0.3%)
Prosperity Millennia Plaza	99.1	99.6	(0.5%)
<b>Commercial</b>			
Harbourfront Landmark (portion)	100.0	100.0	—
Prosperity Place	99.3	96.1	3.2%
<b>Industrial/Office</b>			
Trendy Centre	99.2	99.2	—
Prosperity Center (portion)	99.2	100.0	(0.8%)
<b>Industrial</b>			
New Treasure Centre (portion)	100.0	98.5	1.5%
<b>Portfolio</b>	<b>98.9</b>	98.5	0.4%

## Investment Review

The REIT Manager will continue to implement its acquisition strategy prudently and assess acquisition targets in accordance with established investment criteria, including the potential to enhance asset value, organic growth prospects and synergies with existing properties in the portfolio. In January 2014, Prosperity REIT completed the acquisition of the Chong Yip Property. This HK\$1,010 million acquisition was fully funded by debt, thus expected to be yield accretive and bring additional DPU to unitholders. With the enlarged portfolio, Prosperity REIT will further diversify its tenant base and enhance the economies of scale in operation.

Note:

<sup>2</sup> Absolute change

Management Discussion and Analysis (continued)

## Financial Review

The revenue and net property income of each property in Prosperity REIT's portfolio for the Reporting Year are summarized as follows:

	Turnover	Rental related income	Revenue	Net property income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	93,884	19,870	113,754	91,409
Prosperity Millennia Plaza	60,097	12,690	72,787	58,363
<b>Commercial</b>				
Harbourfront Landmark (portion)	16,392	5,802	22,194	16,942
Prosperity Place	49,226	435	49,661	37,254
<b>Industrial/Office</b>				
Trendy Centre	33,749	6,160	39,909	30,103
Prosperity Center (portion)	27,952	3,029	30,981	23,431
<b>Industrial</b>				
New Treasure Centre (portion)	10,940	1,657	12,597	9,429
<b>Total</b>	<b>292,240</b>	<b>49,643</b>	<b>341,883</b>	<b>266,931</b>

## Revenue

During the Reporting Year, revenue improved to HK\$341.9 million, being HK\$33.5 million or 10.9% higher than that of 2012.

The revenue comprised HK\$292.2 million of rental and car park income, plus HK\$49.7 million of rental related income. Rental and car park income was HK\$31.1 million or 11.9% above that of 2012.

## Net Property Income

For the Reporting Year, the net property income was HK\$266.9 million, exceeding that of 2012 by HK\$27.4 million or 11.4%. The growth was mainly attributable to the strong rental reversion rate of 34.9% and the resilient performance of the leasing market in the decentralized districts. The cost-to-revenue ratio was reduced to 21.9%.

## Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$209.1 million, representing a total DPU of HK\$0.1495. The distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the trust deed constituting Prosperity REIT (the "Trust Deed")) including a finance cost of HK\$10.1 million (equivalent to HK\$0.0072 per unit), which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the Reporting Year.

## Distribution

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2013. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

The distributable income for the half year from 1 July 2013 to 31 December 2013 is HK\$105.5 million, equivalent to a DPU of HK\$0.0751. The interim DPU from 1 January 2013 to 30 June 2013 was HK\$0.0744, and the total DPU for the Reporting Year is HK\$0.1495, which represents a distribution yield of 6.6%<sup>3</sup>. The DPU increased 10.4% YoY mainly due to the increase in net property income, as a result of the strong rental reversion rate and the resilient performance of the leasing market in the decentralized districts during the Reporting Year.

The distribution for the half year from 1 July 2013 to 31 December 2013 will be paid on Friday, 4 April 2014.

## Liquidity and Financing

As at 31 December 2013, Prosperity REIT had facilities in aggregate of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility, each for a term of five years expiring on 16 August 2015. The whole term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$25 million was drawn as at 31 December 2013. The term loan is repayable in five years from 16 August 2010 and will mature and become repayable on 16 August 2015. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity.

The term loan facility and the revolving credit facility bear interest at a variable rate. In order to hedge against interest rate fluctuations under the term loan, Prosperity REIT through its wholly-owned finance company entered into a plain vanilla interest rate swap agreement to fix the interest rate of 80% of the term loan, being HK\$1,416 million, for a period from 16 December 2010 to 16 June 2015 at the swap rate of 1.335%, excluding the spread of 0.81%.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 20.9% as at 31 December 2013, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 25.9% as at 31 December 2013.

Taking into account the fair value of investment properties, presently available banking facilities and internal financial resources of Prosperity REIT, Prosperity REIT has sufficient financial resources to satisfy its commitments and working capital requirements.

Subsequent to the end of the Reporting Year, in order to partly finance the acquisition of the Chong Yip Property (which was completed on 22 January 2014), Prosperity REIT's wholly-owned subsidiary entered into facility agreements on 16 January 2014 with Standard Chartered Bank (Hong Kong) Limited in an aggregate amount of HK\$784 million, which comprise:

- (i) a HK\$404 million secured term loan, which bears interest at a margin of 1.45% per annum over HIBOR, and will mature and become repayable 5 years from 16 January 2014;
- (ii) an unsecured loan of HK\$380 million, which bears interest at a margin of 1.50% per annum over HIBOR, and will mature and become repayable 3 years from 16 January 2014.

(collectively, the "New Facilities").

The New Facilities were fully drawn on 22 January 2014.

Note:

<sup>3</sup> Based on Prosperity REIT's closing unit price of HK\$2.26 as at 31 December 2013

Management Discussion and Analysis (continued)

## Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$550.6 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	31 December 2013 HK\$'000	31 December 2012 HK\$'000
Fair value at the beginning of the year	7,952,000	6,991,000
Additional expenditure	15,409	13,280
Increase in fair value of investment properties	550,591	947,720
Fair value at the end of the year	8,518,000	7,952,000

## Charges on Assets

As at 31 December 2013, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$8,444 million, were pledged to secure bank loan facilities of a Prosperity REIT's finance company.

Prosperity REIT and its subsidiaries have provided guarantees for the loan facilities of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility.

## Employees

Prosperity REIT is externally managed by the REIT Manager and does not employ any staff.

## Closure of Register of Unitholders

The register of unitholders will be closed from Tuesday, 25 March 2014 to Friday, 28 March 2014, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 24 March 2014. The payment date of the final distribution will be on Friday, 4 April 2014.

## Major Real Estate Agents and Contractors

### Top Five Real Estate Agents

The total commission paid to real estate agents to secure new tenants during the Reporting Year was HK\$4,720,000. The commission paid to the top five real estate agents, summarized as follows, was HK\$3,425,000 and accounted for 72.6% of the total commission paid:

Real Estate Agents	Nature of Services	Commission Paid	Percentage of Total Commission Paid
		HK\$'000	
Jones Lang LaSalle Limited	Leasing	1,174	24.9%
Centaline Property Agency Limited	Leasing	1,037	22.0%
Colliers International Agency Limited	Leasing	604	12.8%
CBRE Limited	Leasing	445	9.4%
Midland Realty	Leasing	165	3.5%
		<b>3,425</b>	<b>72.6%</b>

### Top Five Contractors

The total value of service contracts of contractors engaged by Prosperity REIT during the Reporting Year was HK\$52,970,000. The value of contracts of the top five contractors, summarized as follows, was HK\$48,370,000 and accounted for 91.3% of the total value of contracts:

Contractors	Nature of Services	Value of Contract	Percentage of Total Value of Contracts
		HK\$'000	
Goodwell Property Management Limited	Building management	23,704	44.7%
Citybase Property Management Limited	Building management	11,904	22.5%
Goodwell-Prosperity Property Services Limited	Property management	7,836	14.8%
Harbourfront Landmark Premium Services Limited	Building management	2,961	5.6%
E-Park Parking Management Limited	Carpark operation	1,965	3.7%
		<b>48,370</b>	<b>91.3%</b>





# The Property Manager

Pursuant to the property management agreement dated 29 November 2005 between the REIT Manager and Goodwell-Prosperity Property Services Limited (the “**Property Manager**”), as amended, supplemented and/or otherwise modified or extended from time to time, the REIT Manager has appointed the Property Manager to operate, maintain, manage and market all the properties of Prosperity REIT, subject to the overall management and supervision of the REIT Manager.

The Property Manager, an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited, exclusively manages the properties of Prosperity REIT on a dedicated basis.



**1** CHAN Kei Kin, Ken  
*Senior Manager, Asset Management*

**2** DENG Chi Yung, Jonathan  
*Leasing Manager*

**3** YUEN Sin Sze, Cecilia  
*Assistant Property Manager*

**4** NG Chi Wah, Kevin  
*Asset Manager*

**5** HUI Siu Hin, Lawrence  
*Assistant Technical Manager*

**6** CHU Kin Leung, Kevin  
*Senior Property Manager*

**7** WONG Lai Hung, Mavis  
*Chief Executive Officer*

**8** WONG Ling Fei  
*Assistant Chief Manager, Leasing*

**9** YEUNG Tin On, Bruce  
*Assistant Leasing Manager*

**10** CHAN Chun Kwok, Boris  
*Leasing Manager*

**11** WONG Sze Yu, Kitty  
*Assistant Property Manager*



# Corporate Social Responsibilities

## Creating Long Term Value Through Responsible Actions

As a professional manager of a diversified property portfolio, our properties, as well as the staff of the REIT Manager and the Property Manager, are part of the larger society. The continuous support from our stakeholders is vital to the sustainable development of our business. In return, to show our gratitude and responsibility, we integrate Corporate Social Responsibilities (“CSR”) in all aspects of our business, from daily operations to business practices. Taking responsible actions allows us to better retain talented employees, enhance our brand reputation and earn trust from investors, thereby creating long term value.

Since listing, Prosperity REIT has established a culture to conduct business in a responsible manner. Respect, Excellence, Integrity and Teamwork — “REIT” — are our corporate values. Policies and guidelines are in place to govern behavior and practices. We are reporting CSR information in our annual report as part of a sincere effort to enhance communication and transparency with our stakeholders. The following highlights some of our CSR accomplishments in 2013.

## Caring for Community

We actively participate in various corporate charity and volunteering events to help the elderly, visually impaired, handicapped, and less fortunate in the society.



- (a) We volunteered in “Arts Angels Beyond Paradise”, a program promoting visual arts, dance and percussion organized by the St. James Settlement. During the event, the less fortunate and underprivileged youth took the opportunity to create and perform art works.
- (b) We visited an elderly day care center managed by the Tung Wah Group of Hospitals near the Mid-Autumn Festival and Christmas, enjoying heart-warming time with the elderly.
- (c) We donated to the St. James Settlement Food Bank, the Green Day, the Skip Lunch Day, the Dress Casual Day and Love Teeth Day by the Community Chest.
- (d) We received the “Caring Company Award” from The Hong Kong Council of Social Service in recognition of our continued CSR efforts.

Corporate Social Responsibilities (continued)

## Caring for Environment

Greening our property portfolio offers great opportunity to protect the environment and to provide tenants with an environmentally friendly workplace. Apart from creating more green space within the properties, we also employ a soft approach towards raising tenants' awareness in environmental protection.



- (a) Green Wall at Prosperity Place  
From both practical and branding standpoints, a green wall is installed in the lobby of Prosperity Place. The wall helps to purify the air and decrease room temperature, thus saving electricity consumption.
- (b) Tenants' Involvement  
Environmental protection is a joint effort. Therefore, besides focusing on asset enhancements, we actively encourage tenants to adopt green practices.
- (b1) We are a proud participant of the Earth Hour 2013. The annual event promotes awareness of climate change by turning off the lights for an hour, aiming for the general public to adopt a lower-carbon lifestyle and participate in solutions to addressing global climate change.
- (b2) Being aware of the huge wastage resulting from discarding mooncake boxes after the Mid-Autumn Festival, we collected used mooncake boxes from tenants and arranged for recycling.
- (b3) Used computer accessories were collected from tenants for donation in an effort to reduce electronic waste.
- (c) Contractors' Involvement  
When performing renovation works in our properties, contractors are required to adhere to our environmental protection guidelines.

## Caring for Tenants

Tenants form a key pillar of our business. Our asset maintenance and enhancement works accomplished throughout the years indicate our commitment in providing a high quality workplace. Moreover, we strive to foster a harmonious relationship with our tenants through attentive property management service.



(a) Industry Recognition  
Our properties won various industry recognitions in 2013. The Metropolis Tower won the “Excellence in Facility Management Award” organized by The Hong Kong Institute of Facility Management and the “Kowloon West Best Security Services Awards – Best Managed Property” by the Hong Kong Police Force, while Trendy Centre won the “Kowloon West Best Security Services Awards – Treble-Star Managed Property” by the Hong Kong Police Force.



(b) Interactions with Tenants  
(b1) We organized Chinese New Year fireworks nights and lion dances at our properties, wishing health, happiness and prosperity to all of our tenants throughout the year.



(b2) Organizing and participating in mingling events with tenants at our properties allow us to discuss with tenants casually on a range of issues and receive their feedback. In 2013, we organized events such as darts competition, golf competition and drinks night.



(c) Complaints Handling  
In the competitive leasing market, we want to ensure that our tenants receive quality customer services. All complaints from tenants are treated seriously and handled according to a well set of procedures across all our properties.

(d) Hygienic Environment  
The Property Manager strives to maintain a hygienic environment in our properties by sterilizing the facilities and keeping the air clean.

Corporate Social Responsibilities (continued)

## Caring for Staff

The staff of the REIT Manager and the Property Manager are building blocks of our business. Besides the daily course of work, they also create ideas, share insights and work together to contribute to the success of Prosperity REIT. We strive to provide them with a fair, safe, healthy, enjoyable and supportive working environment.



- (a) **Recruitment**  
We adhere to established guidelines to ensure fair employment services. Recruitment and selection of staff are based on the basis of merit (such as skills, experience or ability to perform the job), and regardless of age, race, gender, religion, national origin, sexual orientation, family status, disability and medical condition.
  - (b) **Compensation**  
Staff are rewarded fairly based on their ability, performance, contribution and experience. A salary review is conducted annually and takes into consideration the company's profitability, prevailing market conditions and staff's performance during the year. Staff may also be awarded a variable bonus subject to the company's performance and staff's individual work performance.
  - (c) **Appraisal**  
An appraisal process is conducted annually whereby the supervisor meets with each subordinate face-to-face and discusses his/her job performance for the year. The supervisor and subordinate are encouraged to have discussion on the staff's job performance, work environment, training, future expectation and other areas which will help career advancement.
  - (d) **Benefits**  
Staff are entitled to leave benefits, including annual, medical, marriage, maternity, paternity, compassionate and prolonged illness leave. Recognizing the importance of the well-being of our staff, we provide them with medical and dental benefits, as well as health screening and fitness center membership.
  - (e) **Teamwork**  
In attending activities such as outings, singing contests, movie nights, lunch and dinner gatherings, our employees develop team spirit and a deeper sense of belonging.
- (e1) Annual spring dinner
  - (e2) Seafood lunch
  - (e3) Singing contest
  - (e4) Cake making session
- (f) **Development and Training**  
Staff are provided with equal opportunity for training and development to update their knowledge, or to enhance their business networking. In addition, we also provide study sponsorship program.
  - (g) **Whistle Blowing**  
A Whistle Blowing Policy is in place to provide a communication channel for all staff who may in confidence, raise concerns about possible improprieties and obstructive action within the company. The policy also protects complainants from reprisals or victimization when they whistle blow in good faith and without malice.
  - (h) **Code of Conduct**  
To promote a harmonious working relationship and a conducive environment, a Code of Conduct is established for staff to conduct and carry themselves in a proper and courteous manner at work. The basic behavior expected of staff covers areas such as ethics, duties and responsibilities, confidentiality, restraint, bribery and prohibition of accepting gratuities, and company property.



(i) Occupational Health and Safety Work procedures and guidelines are documented in details to ensure occupational health and safety at our workplace.

An Occupational Health and Safety (“OHS”) committee of the Property Manager is set up to plan, coordinate and market OHS related matters in our properties. The OHS committee meets once a month to review existing safety measures and policies, as well as discuss ways for continuous improvement.

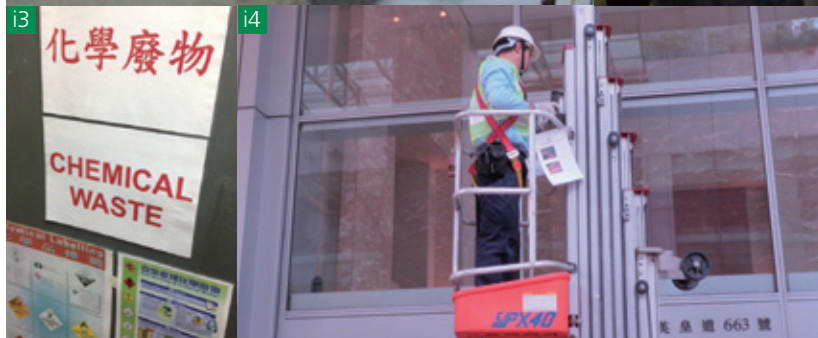
All property management staff are required to attend certified OHS courses so as to maintain their industry knowledge at a professional level.

(i1) Newsletters on the latest OHS practices and trends are distributed to staff every quarter.

(i2) Drills on different types of emergency situations (such as fire, lift malfunction, gas leakage, etc.) are conducted regularly.

(i3) Our contractors are required to adhere to our guidelines and procedures for handling chemical waste.

(i4) When working on the hoisting platform, the staff must be professionally qualified and is required to put on full set of protection equipment.



Corporate Social Responsibilities (continued)

## Caring for Unitholders

We believe that business ethics is crucial for earning trust from unitholders and building a sustainable business. Since Prosperity REIT's listing, we have been committed to nurturing the loyalty and confidence of unitholders through effective communication and strong corporate governance practices.



- (a) Open communication  
We maintain an open channel of communication with our unitholders, including but not limited to the Annual General Meetings, results briefings, corporate website, investor conferences/meetings and property tours.
- (a1) Most of the Board members attended the 2013 Annual General Meeting and were available to have direct communication with unitholders.
- (a2) Chairman Dr. Justin Chiu responded to media queries during results press conference.
- (a3) During property tours, reporters and investors witnessed the new face of Prosperity Place.
- (a4) We produced a video documenting the completed asset enhancement works at Prosperity Place for investors to better visualize the transformation of this property over the years.
- (a5) Prosperity REIT's corporate website has been revamped with more information and easy accessibility.
- (a6) We launched an investor newsletter to keep investors abreast of our latest developments.
- (b) Best Small-Cap Company Award  
Prosperity REIT was awarded the "Best Small Cap", Hong Kong in Asia's Best Managed Companies annual poll conducted by FinanceAsia. This accolade is an acknowledgement from the investment community for Prosperity REIT's achievements over the years.



# Our Awards in 2013

- **Caring Company Award 2013**  
The Hong Kong Council of Social Services
- **Best Small-Cap Company**  
FinanceAsia
- **Kowloon West Best Security Services Awards 2012 – Treble-Star Managed Property – Trendy Centre**  
Hong Kong Police Force (West Kowloon District)
- **Kowloon West Best Security Services Awards 2012 – Best Managed Property – The Metropolis Tower**  
Hong Kong Police Force (West Kowloon District)
- **2012 Vision Awards Annual Report Competition – Silver**  
League of American Communications Professionals LLC (LACP)
- **Galaxy Awards 2012 Annual Report (REIT) – Gold**  
MerComm, Inc.
- **Excellence in Facility Management Award 2013 (Office Building) – The Metropolis Tower**  
The Hong Kong Institute of Facility Management
- **Quality Water Recognition Scheme for Buildings – Gold Certificate – The Metropolis Tower**  
Water Supplies Department
- **Quality Water Recognition Scheme for Buildings – Gold Certificate – Prosperity Millennia Plaza**  
Water Supplies Department
- **Quality Water Recognition Scheme for Buildings – Gold Certificate – Prosperity Place**  
Water Supplies Department
- **Quality Water Recognition Scheme for Buildings – Gold Certificate – Trendy Centre**  
Water Supplies Department
- **Quality Water Recognition Scheme for Buildings – Gold Certificate – New Treasure Centre**  
Water Supplies Department



## Directors and Senior Management Biographical Information



**CHIU Kwok Hung, Justin**  
*Chairman and Non-executive Director*



**LIM Hwee Chiang**  
*Non-executive Director*



**WONG Lai Hung, Mavis**  
*Executive Director and  
Chief Executive Officer*



**MA Lai Chee, Gerald**  
*Non-executive Director*



**LAN Hong Tsung, David**  
*Independent Non-executive  
Director*



**SNG Sow-Mei  
(alias POON Sow Mei)**  
*Independent Non-executive  
Director*



**WONG Kwai Lam**  
*Independent Non-executive  
Director*

## Directors

### CHIU Kwok Hung, Justin

*Chairman and Non-executive Director*

**Dr. CHIU Kwok Hung, Justin**, aged 63, is the Chairman of the REIT Manager. He is also the Chairman and Non-executive Director of ARA Asset Management Limited (“**ARA**”), the holding company of the REIT Manager, the Chairman of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) and the Chairman of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). Both ARA and Suntec REIT are listed on the Main Board of Singapore Exchange Securities Trading Limited (“**SGX-ST**”) while Fortune REIT is listed on the Main Board of both The Stock Exchange of Hong Kong Limited (“**SEHK**”) and SGX-ST. Dr. Chiu is also a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. Dr. Chiu serves as a member of the Standing Committee of the 12th Shanghai Committee of the Chinese People’s Political Consultative Conference of the People’s Republic of China, and is a Fellow of The Hong Kong Institute of Directors, a Fellow of Hong Kong Institute of Real Estate Administrators and a member of the Board of Governors of Hong Kong Baptist University Foundation.

Dr. Chiu has more than 30 years of international experience in real estate in Hong Kong and various countries and is one of the most respected professionals in the property industry in Asia. Dr. Chiu is an Executive Director and Member of Executive Committee of Cheung Kong (Holdings) Limited (“**Cheung Kong**”), a company listed on the Main Board of SEHK. He joined Cheung Kong in 1997 and has been an Executive Director since 2000, heading the real estate sales, marketing and property management teams. Prior to joining Cheung Kong, Dr. Chiu was with Sino Land Company Limited from 1994 to 1997 and Hang Lung Development Company Limited (now known as Hang Lung Group Limited) from 1979 to 1994 responsible for the leasing and property management in both companies. Both Sino Land Company Limited and Hang Lung Group Limited are listed on the Main Board of SEHK.

Dr. Chiu holds Bachelor degrees in Sociology and Economics from Trent University in Ontario, Canada, and was conferred with the degree of Doctor of Social Sciences, *honoris causa* by Hong Kong Baptist University and the degree of Doctor of Laws, *honoris causa* by Trent University in Ontario, Canada.

### LIM Hwee Chiang

*Non-executive Director*

**Mr. LIM Hwee Chiang**, aged 57, is a Non-executive Director of the REIT Manager. He is also the Group Chief Executive Officer and an Executive Director of ARA. He has been a Director of ARA since its establishment. He is also a Director of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT), ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), ARA-CWT Trust Management (Cache) Limited (the manager of Cache Logistics Trust), Am ARA REIT Managers Sdn Bhd (the manager of AmFIRST REIT) and Hui Xian Asset Management Limited (the manager of Hui Xian REIT). ARA, Suntec REIT and Cache Logistics Trust are listed on SGX-ST, Fortune REIT is listed on the Main Board of both SEHK and SGX-ST, Hui Xian REIT is listed on the Main Board of SEHK, and AmFIRST REIT is listed on the Main Board of Bursa Malaysia.

In addition, Mr. Lim is the Chairman of APM Property Management Pte. Ltd., Suntec Singapore International Convention & Exhibition Services Pte. Ltd. and the management council of The Management Corporation Strata Title Plan No. 2197 (Suntec City). Mr. Lim is also an Independent Director and the Chairman of the Remuneration Committee of Teckwah Industrial Corporation Limited which is listed on the Main Board of SGX-ST. He is also a Director of Chinese Chamber Realty Private Limited, a Director of the Financial Board of the Singapore Chinese Chamber of Commerce, the Chairman of the Property Management Committee of the Singapore Chinese Chamber of Commerce and Industry, and a member of the Consultative Committee to the Department of Real Estate, National University of Singapore.

Mr Lim has more than 30 years of experience in the real estate industry, and has received many notable corporate awards. His recent accolades include the Ernst & Young Entrepreneur Of the Year Singapore 2012, Ernst & Young Entrepreneur Of the Year — Financial Services 2012 and the Outstanding CEO of the Year 2011 at the Singapore Business Awards 2012. Mr. Lim, along with the Board of Directors of ARA, is also a recipient of the prestigious Best Managed Board (Gold) Award at the Singapore Corporate Awards 2012.

## Directors and Senior Management Biographical Information (continued)

Mr. Lim holds a Bachelor of Engineering (First Class Honours) in Mechanical Engineering, a Master of Science in Industrial Engineering, as well as a Diploma in Business Administration, each from the National University of Singapore.

**WONG Lai Hung, Mavis**

*Executive Director and Chief Executive Officer*

**Ms. WONG Lai Hung, Mavis**, aged 41, is an Executive Director, the Chief Executive Officer and a Responsible Officer of the REIT Manager. She is also the Chairman of the Disclosures Committee and a member of the Designated (Finance) Committee of the REIT Manager. Ms. Wong has led and/or been a member of the Investment and Asset Management Team of the REIT Manager since Prosperity REIT was listed in December 2005. She was the Director, Investment and Asset Management of the REIT Manager overseeing the business plans of Prosperity REIT's properties including leasing, property management and asset enhancement strategies, and is responsible for investment strategy and policy. Ms. Wong served as Acting Chief Executive Officer from 8 April 2011 to 31 December 2012, at which point she was re-designated as the Chief Executive Officer on 1 January 2013. Ms. Wong has been a Responsible Officer of the REIT Manager since July 2007.

Ms. Wong has close to 20 years of real estate industry experience. Prior to joining the REIT Manager, Ms. Wong worked in the leasing, marketing and asset/property management departments of various developers, management companies and corporations including Cheung Kong, New World Development Company Limited, Jardine Matheson & Co Limited, Goodwill Management Limited (a wholly-owned subsidiary of Henderson Land Development Co. Ltd.) and Yaohan Department Store (HK) Limited. Ms. Wong is a Member of The Hong Kong Institute of Directors.

Ms. Wong holds a Bachelor of Arts degree from the Chinese University of Hong Kong, a Postgraduate Certification in HK Law from City University of Hong Kong and a Diploma in Property Development from SPACE, University of Hong Kong.

**MA Lai Chee, Gerald**

*Non-executive Director*

**Mr. MA Lai Chee, Gerald**, aged 46, is a Non-executive Director and a member of the Designated (Finance) Committee of the REIT Manager. He is currently Member of Executive Committee and Chief Manager, Corporate Business Development Department of Cheung Kong. Mr. Ma is an Alternate Director to Mr. Ip Tak Chuen, Edmond, in respect of certain of his directorships, namely ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) and ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). He is also an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited ("**Hutchison Telecommunications**"), a company listed on the Main Board of SEHK.

Mr. Ma has over 24 years of experience in banking, investment and portfolio management, real estate development and marketing, as well as managing IT related ventures and services. He is a member of the Hospitality Services Committee of Caritas Hong Kong, a member of the President's Circle, the Dean's Advisory Board for the Faculty of Arts and the China Advisory Council for the Sauder School of Business of the University of British Columbia, Canada ("**UBC**"). He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.

**LAN Hong Tsung, David***Independent Non-executive Director*

**Dr. LAN Hong Tsung, David**, aged 73, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of each of the Disclosures Committee and the Designated (Finance) Committee of the REIT Manager. He is also an Independent Non-executive Director and a member of the Audit Committee of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT which is listed on the Main Board of both SEHK and SGX-ST). Dr. Lan is also an Independent Non-executive Director of other listed companies in Hong Kong including Cheung Kong Infrastructure Holdings Limited ("**CK Infrastructure**") (in which he is a member of the Audit Committee), Hutchison Telecommunications (in which he is a member of the Audit Committee and Chairman of the Remuneration Committee), Hutchison Harbour Ring Limited and SJM Holdings Limited. Dr. Lan is currently the Chairman of David H T Lan Consultants Ltd., Supervisor of Nanyang Commercial Bank (China), Limited and holds a directorship at Nanyang Commercial Bank Ltd. as well as being a Senior Advisor of Mitsui & Company (Hong Kong) Limited. Dr. Lan is also the President of the International Institute of Management.

Dr. Lan was the Secretary for Home Affairs of the Government of the Hong Kong Special Administrative Region until his retirement in July 2000. He had served as civil servant in various capacities for 39 years and was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. He was appointed to the 10th and 11th sessions of the National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China. Dr. Lan is a Chartered Secretary and a Fellow Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

Dr. Lan received his Bachelor of Arts degree from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston. He was also awarded Fellow, Queen Elizabeth House (Oxford). Dr. Lan was conferred with Doctor of Humanities, *honoris causa* by Don Honorio Ventura Technological State University, and holder of Visiting Professorship Awards of Bulacan State University and Tarlac State University.

**SNG Sow-Mei (alias POON Sow Mei)***Independent Non-Executive Director*

**Mrs. SNG Sow-Mei (alias POON Sow Mei)**, aged 72, is an Independent Non-executive Director and a member of the Audit Committee of the REIT Manager. She is also an Independent Non-executive Director of CK Infrastructure and ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), and the Lead Independent Director of Hutchison Port Holdings Management Pte Limited (the manager of Hutchison Port Holdings Trust ("**HPH Trust**")). CK Infrastructure is listed on the Main Board of SEHK, Fortune REIT is listed on the Main Board of both SEHK and SGX-ST, and HPH Trust is listed on the Main Board of SGX-ST. Mrs. Sng is also a member of the Audit Committee of CK Infrastructure, ARA Asset Management (Fortune) Limited and Hutchison Port Holdings Management Pte Limited.

From 2004 to 2013, Mrs. Sng was Independent Non-executive Director and member of the Audit Committee of ARA Trust Management (Suntec) Limited, the manager of Suntec REIT listed on the Main Board of SGX-ST. Prior to her appointments with Singapore Technologies Pte Ltd, where she was Director of Special Projects (North East Asia) in 2000 and a Senior Consultant (International Business) of Singapore Technologies Electronics Limited from 2001 to 2013, Mrs. Sng was the Managing Director of CapitaLand Hong Kong Ltd for investment in Hong Kong and the region including Japan and Taiwan. In Hong Kong, Mrs. Sng was a Director of INFA Systems Ltd from 2007 to 2013, the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively from 1983 to 1997. She was Singapore's Trade Commissioner in Hong Kong from 1990 to 1997.

Mrs. Sng, who holds a Bachelor of Arts degree from the Nanyang University of Singapore, has wide experience in various fields of industrial investment, business development, strategic and financial management, especially in property investment and management. In 1996, Mrs. Sng was conferred the title of PPA (P) – Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver).

Directors and Senior Management Biographical Information (continued)

## WONG Kwai Lam

*Independent Non-executive Director*

**Mr. WONG Kwai Lam**, aged 64, is an Independent Non-executive Director and a member of each of the Audit Committee and Designated (Finance) Committee of the REIT Manager. He is an Independent Non-executive Director and a member of each of the remuneration and appraisal committee and related-party transaction control committee of China Merchants Bank Co., Ltd., a company listed on the Main Board of SEHK and Shanghai Stock Exchange, and an Independent Non-executive Director and a member of each of the remuneration committee and nomination committee of K. Wah International Holdings Limited, a company listed on the Main Board of SEHK. Mr. Wong is also an Independent Non-executive Director and chairman of the audit committee of Langham Hospitality Investments Limited (a company which together with Langham Hospitality Investments listed on the Main Board of SEHK) and LHIL Manager Ltd, as trustee and manager of Langham Hospitality Investments, and a member of the remuneration committee and nomination committee of Langham Hospitality Investments Limited. Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd., a director of Opera Hong Kong Limited, a member of the Board of Trustees and a member of the Investment Committee of the Board of Trustees of New Asia College of the Chinese University of Hong Kong, a member of the Investment Sub-Committee of the Chinese University of Hong Kong, and a member of Hospital Governing Committee of the Prince of Wales Hospital. He was formerly a member of the Advisory Committee of the Securities and Futures Commission in Hong Kong, a member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee of the Hong Kong Trade Development Council.

Mr. Wong has over 33 years of experience in the commercial and investment banking industry. He worked with Merrill Lynch (Asia Pacific) Ltd. from May 1993 to August 2009 where he served as a Managing Director in the Asia investment banking division since January 1995. He was appointed as a Senior Client Advisor to Merrill Lynch (Asia Pacific) Ltd. in September 2009 and served in that position for one year. Prior to joining Merrill Lynch (Asia Pacific) Ltd., Mr. Wong had been a Director in the investment banking division of CS First Boston (Hong Kong) Ltd. and a Director and the head of primary market in Standard Chartered Asia Limited.

Mr. Wong holds Bachelor of Arts degree from the Chinese University of Hong Kong and a Ph. D from Leicester University, England.

## Executive Officers

**Ms. WONG Lai Hung, Mavis** is the Chief Executive Officer of the REIT Manager. Details of her working experience are set out in the sub-section "Directors".

Ms. Wong is responsible for working with the Board to determine the strategy for Prosperity REIT. She works with the other members of the REIT Manager's management team to ensure that Prosperity REIT is operated in accordance with the REIT Manager's stated investment strategy. Additionally, she is responsible for planning the strategic development of Prosperity REIT and the day-to-day operations of the REIT Manager. She supervises the REIT Manager's management team to ensure that Prosperity REIT operates in accordance with the stated strategy, policies and regulations.

**Mr. CHEUNG Kin Wah, Samuel** is the Finance Manager of the REIT Manager. He is responsible for the financial management of Prosperity REIT. He has over 19 years of experience in audit and finance areas.

From 2000 to 2006, Mr. Cheung was the Chief Financial Controller and Company Secretary of Joinn Holdings Limited ("Joinn") (currently named as Chinasing Investment Holdings Limited), a company listed on the Main Board of SGX-ST. He was in charge of the accounting and finance functions of the group. He also performed company secretarial duties to ensure compliance with all legal and listing requirements and helped to ensure proper corporate governance. Mr. Cheung also helped to manage Joinn's Initial Public Offering in Singapore and was responsible for helping with the spinning-off of one associate company on SEHK's Growth Enterprise Market.

Prior to joining Joinn, Mr. Cheung served as an auditor with Messrs. Ernst & Young (Hong Kong) from 1995 to 2000 and also with Messrs. Kwan, Wong, Tan & Fong (which has merged with Deloitte Touche Tohmatsu) from 1993 to 1994.

Mr. Cheung is a Certified Public Accountant in Hong Kong and a fellow of the Association of Chartered Certified Accountants. He is also an associate of the Hong Kong Institute of Certified Public Accountants, and a Certified Tax Adviser and associate member of the Taxation Institute of Hong Kong. He graduated from Lingnan University with an Honours Diploma in Accountancy in 1993.

**Ms. CHIN Wai Yan, Ally** is the Manager, Internal Audit of the REIT Manager. She is responsible for reviewing Prosperity REIT's implementation of corporate governance practices and internal control systems and measures. She formulates risk-based internal audit plan and independently assesses the effectiveness of the REIT Manager's internal control procedures, operational functions and key processes.

Prior to joining the REIT Manager, Ms. Chin was the Senior Internal Auditor of Lotus International Limited responsible for formulating and executing internal audit plan, performing risk-based internal audit reviews on operations and internal control systems for various business units.

Prior to that, Ms. Chin joined Ernst & Young's Assurance & Advisory Business Services Department after obtaining a Bachelor of Accounting & Finance degree from the University of Hong Kong. She is a Certified Public Accountant, a member of the Hong Kong Institute of Certified Public Accountants and a Certified Internal Auditor with The Institute of Internal Auditors.

**Ms. AU Ka Yee, Irene** is the Senior Manager, Legal & Compliance of the REIT Manager. She is responsible for ensuring that Prosperity REIT and the REIT Manager comply with the Trust Deed, the REIT Code, the applicable Listing Rules, the Securities and Futures Ordinance, and other applicable laws, rules and regulations. She is also responsible for overseeing all legal issues arising from the operation of Prosperity REIT and the REIT Manager.

Ms. Au was concurrently the Hong Kong-based Compliance Manager of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) from March 2010 to April 2012. Prior to joining the REIT Manager in 2007, Ms. Au was a solicitor in private practice for over 8 years. She holds a Bachelor of Laws degree and Postgraduate Certificate in Laws. Apart from being a solicitor of the Hong Kong Special Administrative Region, she is also an associate of the Chartered Institute of Arbitrators of the United Kingdom, East Asia Branch.

**Mr. CHAN Kei Kin, Ken** is the Senior Manager, Asset Management of the REIT Manager. He is responsible for formulating the business plans of Prosperity REIT's properties with short, medium and long-term objectives, and with a view of maximizing the rental income of Prosperity REIT's properties via active asset management. Mr. Chan has about 17 years of experience in the real estate industry.

Prior to joining the REIT Manager, he was the Assistant Marketing Manager for The Great Eagle Estate Agents Limited, responsible for the marketing and leasing of commercial buildings in Central and Wanchai districts.

Prior to that, Mr. Chan was the Senior Marketing Officer of Hutchison Whampoa Properties Limited from 2001 to 2005 and his duty was marketing and leasing of commercial buildings in Central and Hunghom districts. Mr. Chan began his career with Savills (Hong Kong) Limited as a Valuer from 1996 to 2001.

Mr. Chan holds a Master of Science degree in Finance from The Chinese University of Hong Kong and a Bachelor of Science degree in Surveying from The University of Hong Kong. He is a member of Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors, and also a Registered Professional Surveyor (General Practice).

**Mr. NG Chi Wah, Kevin** is the Asset Manager of the REIT Manager. He is responsible for strategic asset enhancement planning and project management of Prosperity REIT. Mr. Ng has about 15 years of experience in the real estate industry. Prior to joining the REIT Manager, he was the Assistant Technical Manager for Goodwell Property Management Limited responsible for formulating project development strategies, policies and overseeing the renovation projects for various commercial mall, office building and service apartment in Hong Kong and China.

Prior to that, Mr. Ng was the Engineer of Sino Estates Management Limited, responsible for the facility management and asset enhancement activities for various commercial mall and office building. Mr. Ng began his career with Yew Sang Hong Limited as Assistant Engineer.

## Directors and Senior Management Biographical Information (continued)

Mr. Ng is a Registered Professional Engineer and Chartered Engineer. He holds a Master of Science degree in Environmental Engineering from The Hong Kong Polytechnic University and a Bachelor of Engineering degree in Building Services Engineering from The University of Northumbria at Newcastle. He is also a member of The Hong Kong Institution of Engineers, The Chartered Institution of Building Services Engineers and The Institution of Engineering and Technology.

**Ms. KWAN Ka Yee, Carey** is the Investor Relations Manager of the REIT Manager. She is responsible for communicating and liaising with unitholders and investors of Prosperity REIT.

Prior to joining the REIT Manager, Ms. Kwan was with Shun Tak Holdings Limited, a company listed on the Main Board of SEHK, where she served as the Assistant Investor Relations Manager. During her tenure with Shun Tak Holdings Limited, Ms. Kwan was tasked to maintain an open channel of communication with various stakeholders and hence had developed an extensive network among the investment community. Prior to that, Ms. Kwan was the Associate, Business Development of Fitch Ratings, a global credit rating agency. In this capacity, Ms. Kwan was involved in communicating product and service developments to prospective clients, as well as overseeing the preparation of marketing literature.

Ms. Kwan holds a Master of Business Administration degree from University of Iowa, and a Bachelor of Science degree in Electrical Engineering and Computer Science from University of California, Berkeley.

## Responsible Officers

**Ms. WONG Lai Hung, Mavis** is the Responsible Officer of the REIT Manager. Details of her working experience are set out in the sub-section "Directors".

**Mr. CHAN Kei Kin, Ken** is the Responsible Officer of the REIT Manager. Details of his working experience are set out in the sub-section "Executive Officers".

**Mr. NG Chi Wah, Kevin** is the Responsible Officer of the REIT Manager. Details of his working experience are set out in the sub-section "Executive Officers".



## Corporate Governance

The REIT Manager was established for the purpose of managing Prosperity REIT. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the “**Compliance Manual**”) for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. During the Reporting Year, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

The REIT Manager is committed to the establishment of good corporate governance practices and procedures. It is the firm belief of the Board of Directors of the REIT Manager (the “**Board**”) that transparency, accountability, sound internal control policies and risk management system are the essential elements for winning trust and support from retail and institutional investors. The Board keeps abreast of the latest industry trend and regulation changes in order to maintain its competence in the dynamic market condition, and ultimately upholds the best corporate governance practices. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT.

### Authorization Structure

Prosperity REIT is a collective investment scheme authorized by the Securities and Futures Commission (the “**SFC**”) under section 104 of the Securities and Futures Ordinance (Cap 571) (“**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”). The REIT Manager has been licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Ms. Wong Lai Hung, Mavis, the Chief Executive Officer (“**CEO**”) and an Executive Director, Mr. Chan Kei Kin, Ken and Mr. Ng Chi Wah, Kevin are the Responsible Officers of the REIT Manager pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

The Trustee, HSBC Institutional Trust Services (Asia) Limited, is registered as a trust company under section 77 of the Trustee Ordinance (Cap. 29). The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code.

### Roles of the Trustee and the REIT Manager

The Trustee and the REIT Manager are independent of each other. The Trustee is responsible under the Trust Deed for the safe custody of the assets of Prosperity REIT on behalf of the unitholders.

The REIT Manager has general power of management over the assets of Prosperity REIT and shall act in the best interests of the unitholders in accordance with the REIT Code. The REIT Manager’s role under the Trust Deed is to manage Prosperity REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of the assets of Prosperity REIT are professionally managed in the sole interests of the unitholders. Other main roles, functions and responsibilities of the REIT Manager include:

- (1) setting the strategic direction and risk management policies of Prosperity REIT on acquisition, divestment or enhancement of assets of Prosperity REIT in accordance with its stated investment strategy;
- (2) preparing various property plans on a regular basis to explain the performance of the assets of Prosperity REIT;
- (3) ensuring compliance with the applicable provisions of the REIT Code, the SFO and all other relevant legislation, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Trust Deed, all other relevant legislation and all relevant contracts; and
- (4) attending to all regular communications with unitholders.

Corporate Governance (continued)

## Board of Directors of the REIT Manager

The Board is responsible for the overall governance of the REIT Manager including establishing goals for management and monitoring the achievement of these goals. The Board has established a framework for the management of Prosperity REIT, including a system of internal control which covers business risk management processes.

The Board is collectively responsible for the management of the business and affairs of the REIT Manager. The Board exercises its general powers within the limits defined by the articles of association of the REIT Manager, with a view to ensuring that the management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board also reviews major financial decisions and the performance of the REIT Manager. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to relevant management teams and committees of the Board.

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of five Directors and a maximum of twenty Directors.

The composition of the Board is determined using the following principles:

- (1) the Chairman of the Board shall be a Non-executive Director of the REIT Manager;
- (2) the CEO shall be a member of the Board; and
- (3) the Board shall comprise Directors with a broad range of educational background, commercial experience including expertise in funds management and the property industry, and diversified in terms of gender, age and cultural background appropriate to the business of Prosperity REIT and the REIT Manager.

The composition is reviewed regularly to ensure that the Board has a balance of skills, expertise, experience and diversity appropriate to the requirements of the business of Prosperity REIT and the REIT Manager.

The Board presently comprises seven members, three of whom are Independent Non-executive Directors (“INEDs”). All directors of the REIT Manager (the “Directors”) (including INEDs) shall retire from office at every annual general meeting of the REIT Manager but shall be eligible for re-election in accordance with the articles of association of the REIT Manager.

The positions of Chairman of the Board and CEO are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Dr. Chiu Kwok Hung, Justin who is a Non-executive Director. He is responsible for the overall leadership of the Board and the REIT Manager. The CEO is Ms. Wong Lai Hung, Mavis who is an Executive Director and a Responsible Officer of the REIT Manager. She has overall responsibility for the day-to-day operations of the REIT Manager and supervises the REIT Manager’s management team to ensure that Prosperity REIT is operated in accordance with the stated strategy, policies and regulations.

During the Reporting Year, the Board reviewed and monitored Prosperity REIT’s policies and practices on corporate governance, Prosperity REIT’s policies and practices on compliance with the applicable legal and regulatory requirements, the compliance of the Compliance Manual and any other code of conduct applicable to Directors and employees of the REIT Manager, and Prosperity REIT’s compliance with the applicable corporate governance practices and disclosure requirements under the REIT Code and the applicable Listing Rules.

Five full Board meetings of the REIT Manager were held during the Reporting Year and the attendance record of the Board meetings is as follows:

Members of the Board	Attendance
<i>Chairman and Non-executive Director</i>	
Dr. Chiu Kwok Hung, Justin	5/5
<i>CEO and Executive Director</i>	
Ms. Wong Lai Hung, Mavis	5/5
<i>Non-executive Directors</i>	
Mr. Lim Hwee Chiang	4/5
Mr. Ma Lai Chee, Gerald	5/5
<i>Independent Non-executive Directors</i>	
Dr. Lan Hong Tsung, David	5/5
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	5/5
Mr. Wong Kwai Lam	5/5

Apart from regular Board meetings, a full board meeting was held during the Reporting Year to consider a major acquisition and connected party transactions relating to the proposed acquisition of the Chong Yip Property and the related matters. The Chairman also held one meeting with the Non-executive Directors (including INEDs) without presence of the Executive Director during the Reporting Year. The REIT Manager believes that contributions from each Director go beyond his/her attendances at Board and board committee meetings.

Pursuant to the corporate governance policy adopted by the REIT Manager, the INEDs must fulfill the independence criteria set out in the Compliance Manual. The REIT Manager has received written annual confirmation from each INED of his/her independence pursuant to the "Criteria for Independence of INEDs" set out in the Compliance Manual.

## Appointment and Removal of Directors

The appointment and removal of Directors is a matter for the Board and the shareholders of the REIT Manager to determine in accordance with the Compliance Manual, the articles of association of the REIT Manager and the applicable law. As the REIT Manager is licensed by the SFC under Part V of the SFO, the appointment of an Executive Director who is or is to be appointed as a Responsible Officer requires the prior approval of the SFC.

In considering persons for appointment and re-appointment as Directors, the Board will have regard to a number of matters set out in the Compliance Manual in assessing whether such persons are fit and proper to be a Director.

## Directors' Continuous Professional Development

Directors are well aware of their responsibilities as a director of the REIT Manager and the conduct, business activities and development of Prosperity REIT. They are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. In-house briefings for Directors are arranged by the REIT Manager where appropriate. The management team of the REIT Manager is required to provide timely reports regarding the business operations and performance of Prosperity REIT, market research analysis and the relevant latest government policies to the Board. Directors are also encouraged to participate in appropriate continuous professional development programmes or the relevant training courses organized by professional institutions or conducted by qualified professionals or legal counsels to develop and refresh their knowledge and skills and are requested to provide a record to the REIT Manager of any training they received.

## Corporate Governance (continued)

During the Reporting Year, in-house briefings were given by Company Secretary and/or the in-house counsel of the REIT Manager to Directors in respect of updates on changes/proposed changes of (i) the Listing Rules regarding trading halts and review of connected transactions rules; (ii) the SFO in respect of enhancing the regulatory regime for non-corporate listed entities. The principal valuer of Prosperity REIT conducted valuation training and the legal advisers of Prosperity REIT gave updates on regulatory requirements applicable to REITs. Besides, the external auditors of Prosperity REIT gave briefings on updates of accounting standards and principles to the members of the Audit Committee.

Apart from in-house briefings, Directors enriched and updated their knowledge by reading relevant materials. During the Reporting Year, Directors also undertook various continuous professional development programmes and training courses as follows:

Members of the Board	Programmes and training courses undertaken
<i>Chairman and Non-executive Director</i> Dr. Chiu Kwok Hung, Justin	Various seminars conducted by legal counsels regarding directors' duties and connected transaction rules
<i>CEO and Executive Director</i> Ms. Wong Lai Hung, Mavis	Various conferences and seminars organised by the Hong Kong Securities and Investment Institute and other research houses regarding property and financial market updates, economic trends and regulatory updates
<i>Non-executive Directors</i> Mr. Lim Hwee Chiang	Various conferences/meetings/seminars organised by banks and research houses regarding capital and financial market updates and corporate governance for directors
Mr. Ma Lai Chee, Gerald	Various seminars organised by the SEHK regarding regulatory and compliance updates
<i>Independent Non-executive Directors</i> Dr. Lan Hong Tsung, David	Various conferences/seminars conducted/organised by legal counsels, banks and professional accounting firms regarding directors' duties, regulatory updates and corporate governance practices
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	Various conferences/seminars conducted/organised by regulatory body, banks and educational institutions regarding regulatory updates, capital and financial market outlook, and economic and financial trends
Mr. Wong Kwai Lam	Various seminars conducted by the Hong Kong Institute of Directors and legal counsels regarding regulatory updates

## Internal Controls

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's internal control systems and operational functions and review of their effectiveness. The Internal Auditor prepares an audit plan using a risk based methodology in consultation with, but independent of, the management for review by the Audit Committee. The audit review focuses on operational and compliance controls of Prosperity REIT and effective implementation of the internal control systems and compliance procedures.

The Board, through the Audit Committee, conducts reviews on the effectiveness of internal control system of Prosperity REIT, which cover all material controls including financial, operational and compliance controls, risk management functions, the adequacy of resources, qualifications and experience of the REIT Managers' staff who carry out Prosperity REIT's accounting and financial reporting function, and their training programmes and budget.

## Audit Committee

The REIT Manager has established an Audit Committee to assist the Board in reviewing the completeness, accuracy, clarity and fairness of Prosperity REIT's financial statements, recommending for the appointment and reviewing the relationship with the external auditors of Prosperity REIT periodically, as well as reviewing and supervising the internal control procedures and risk management systems.

The Audit Committee's responsibilities also include:

- (1) reviewing external audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;
- (2) monitoring the procedures in place to ensure compliance with the applicable legislation, the REIT Code and the applicable Listing Rules;
- (3) reviewing all financial statements and all internal audit reports; and
- (4) monitoring the procedures established to regulate connected party transactions, including ensuring compliance with the provisions of the REIT Code relating to transactions between Prosperity REIT and a connected person (as defined in the REIT Code).

The Audit Committee members are appointed by the Board from among the Directors. The Audit Committee presently comprises three INEDs, namely, Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam. Dr. Lan Hong Tsung, David is the chairman of the Audit Committee.

The Audit Committee meets on a half yearly basis for considering and reviewing the 2012 final results, 2013 interim results and other internal controls, risk management and compliance matters of Prosperity REIT. An additional meeting was held during the Reporting Year for considering the proposed acquisition of the Chong Yip Property and the related connected party transactions. The attendance record of the Audit Committee meetings is as follows:

Members of the Audit Committee	Attendance
Dr. Lan Hong Tsung, David	3/3
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	3/3
Mr. Wong Kwai Lam	3/3

The external auditors of Prosperity REIT attended all the Audit Committee meetings to report any major audit issues and findings, and provide their opinion on the accounting issues to the Audit Committee. The Audit Committee also met with the external auditors without the presence of the management team of the REIT Manager once during the Reporting Year.

Pursuant to the waiver from strict compliance with the requirement under Clause 9.13(b) of the REIT Code granted by the SFC, the Audit Committee confirms that the public relations-related expenses are incurred in accordance with the internal control procedures of the REIT Manager and the nature of the same are incurred solely for the purposes as set out in Clauses 4.5.6 and 4.5.13 of the Trust Deed.

Corporate Governance (continued)

## Disclosures Committee

The REIT Manager has set up a Disclosures Committee to assist the Board in reviewing matters relating to the disclosure of information to unitholders and public announcements. The Disclosures Committee also works with the management team of the REIT Manager to ensure the disclosure of information is accurate and complete.

The Disclosures Committee's responsibilities also include:

- (1) reviewing and recommending to the Board on matters of corporate disclosure issues and announcements regarding (without limitation) financial reporting, connected party transactions, and potential areas of conflict of interests;
- (2) overseeing compliance with the applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Prosperity REIT to the public and the applicable regulatory agencies; and
- (3) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Prosperity REIT prior to such information being disseminated to the public or filed with the regulatory agencies, as applicable.

The Disclosures Committee members are appointed by the Board from among the Directors. The Disclosures Committee presently consists of three members, namely, Dr. Chiu Kwok Hung, Justin, Chairman and a Non-executive Director, Ms. Wong Lai Hung, Mavis, CEO and an Executive Director, and Dr. Lan Hong Tsung, David, an INED. Ms. Wong Lai Hung, Mavis is the chairman of the Disclosures Committee.

The Disclosures Committee meets on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held three meetings during the Reporting Year for considering and reviewing the 2012 final results announcement and 2013 interim results announcement, the 2012 annual report and 2013 interim report of Prosperity REIT, the disclosure matters regarding the proposed acquisition of the Chong Yip Property and the related connected party transactions, and other corporate disclosure issues of Prosperity REIT. The Disclosures Committee also reviewed all public announcements issued by Prosperity REIT throughout the Reporting Year. The attendance record of the Disclosures Committee meetings is as follows:

Members of the Disclosures Committee	Attendance
Dr. Chiu Kwok Hung, Justin	3/3
Ms. Wong Lai Hung, Mavis	3/3
Dr. Lan Hong Tsung, David	3/3

## Designated (Finance) Committee

The REIT Manager has set up a Designated (Finance) Committee to assist the Board in reviewing matters relating to hedging strategies, financing and re-financing arrangements and transactions involving derivative instruments for hedging purposes.

The Designated (Finance) Committee presently comprises, among others, four Directors, namely, Ms. Wong Lai Hung, Mavis, CEO and an Executive Director, Mr. Ma Lai Chee, Gerald, a Non-executive Director, Dr. Lan Hong Tsung, David and Mr. Wong Kwai Lam, INEDs. Ms. Wong Lai Hung, Mavis is the convener of the Designated (Finance) Committee.

The meetings of the Designated (Finance) Committee will be convened as and when necessary. In lieu of physical meetings, written resolutions are also circulated for approval by the Designated (Finance) Committee and telephone conferences are also conducted by members of the Designated (Finance) Committee if necessary.

During the Reporting Year, one meeting of the Designated (Finance) Committee was held and all the members had attended the meeting.

## Management of Business Risk

The Board meets quarterly or more often if necessary and reviews the financial performance of Prosperity REIT against a previously approved budget. The Board also reviews any risks to the assets of Prosperity REIT, examines liability management and acts upon any comments from the auditors of Prosperity REIT.

The REIT Manager has appointed experienced and well-qualified management team to handle the day-to-day operations of the REIT Manager and Prosperity REIT. The management team provides the Board with monthly updates giving a balanced and understandable assessment of Prosperity REIT's performance and current financial position. In assessing business risk, the Board considers the economic environment and the property industry risk. It reviews management reports and feasibility studies on individual development project prior to approving any major transactions.

## Conflicts of Interest

The REIT Manager has instituted the following procedures to deal with conflicts of interest issues:

- (1) The REIT Manager is a dedicated manager to Prosperity REIT and does not manage any other real estate investment trust or involve in any other real property business.
- (2) All connected party transactions are managed in accordance with the procedures set out in the Compliance Manual.
- (3) At least one-third of the Board shall comprise INEDs.

In addition, Directors are requested to give general notice to the REIT Manager stating his/her interests in contracts of any description which may subsequently be made by the REIT Manager pursuant to Section 162 of the Companies Ordinance and the articles of association of the REIT Manager.

## Communication with Unitholders and Investors

The REIT Manager considers that effective communication with unitholders is essential for enhancing investor relations and investor understanding of Prosperity REIT's business performance and strategies. The REIT Manager also recognizes the importance of transparency and timely disclosure of corporate information, which will enable unitholders and investors to make the best investment decisions.

The general meetings of Prosperity REIT provide a forum for direct communication between the Board and the unitholders. Under the Trust Deed, the Trustee or the REIT Manager may respectively (and the REIT Manager shall at the request in writing of not less than two unitholders registered as together holding not less than 10% of the units for the time being in issue and outstanding) at any time convene a meeting of unitholders at such time and place in Hong Kong as the party convening the meeting may think fit and propose resolutions for consideration at such meeting.

Corporate Governance (continued)

The 2013 Annual General Meeting (“**AGM**”) was held on 10 May 2013 and the notice of AGM was sent to unitholders at least 20 clear business days before the AGM. Apart from Mr. Ma Lai Chee, Gerald, a Non-executive Director, all of the Directors (including the Chairman of the Board and chairmen of the respective board committees) as well as the external auditors of Prosperity REIT attended the 2013 AGM and they were available to answer questions from unitholders.

Prosperity REIT maintains a website at [www.prosperityreit.com](http://www.prosperityreit.com) where updated information on Prosperity REIT’s business operations and developments, financial information and other information are posted. The REIT Manager has been actively participating in regular press conferences and meetings with investors and analysts in order to update the interested parties on the performance of Prosperity REIT. The REIT Manager values suggestions from unitholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome and they can be addressed to the Investor Relations Manager by mail, phone or email according to the information set out in the Corporate Information section of this annual report.

## Reporting and Transparency

Prosperity REIT prepares its accounts in accordance with the generally accepted accounting principles in Hong Kong with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual report and interim report of Prosperity REIT will be published and sent to unitholders within four months of the end of each financial year and within two months of the end of each financial half-year respectively.

As required by the REIT Code, the REIT Manager will ensure that public announcements of material information and developments with respect to Prosperity REIT will be made on a timely basis in order to keep unitholders apprised of the position of Prosperity REIT. Announcements will be made by publishing them on the website of the SEHK and the website of Prosperity REIT.

## Directors’ Responsibility for Financial Statements

The Directors acknowledge their responsibility for preparation of a true and fair presentation of the financial statements for the year ended 31 December 2013. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Prosperity REIT to continue as a going concern.

The statement of the auditors of Prosperity REIT about their reporting responsibilities on the financial statements is set out in the Independent Auditors’ Report.

## Issues of Further Units Post-Listing

To minimize the possible material dilution of holdings of unitholders, any further issue of units will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions require that further issues of units be first offered on a pro rata pre-emptive basis to existing unitholders except that units may be issued: (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of units in issue at the end of the previous financial year; and (ii) free of pre-emption rights in other circumstances provided that the approval of unitholders by way of an ordinary resolution is obtained.



## Code Governing Dealings in Units by Directors or the REIT Manager and Interests of the Significant Unitholders

The REIT Manager has adopted a code governing dealings in the securities of Prosperity REIT by the Directors or the REIT Manager (collectively, the “**Management Persons**”) (the “**Units Dealing Code**”), on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Units Dealing Code has been extended to apply to executive officers and other employees of the REIT Manager.

Pursuant to the Units Dealing Code, Management Persons wishing to deal in any securities of Prosperity REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if the SFO applies to the securities of Prosperity REIT. In addition, Management Persons must not make any unauthorized disclosure of confidential information or make any use of such information for the advantage of himself, itself or others.

Management Persons who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are notifiable transactions under Chapter 14 of the Listing Rules or connected party transactions under the REIT Code or any inside information (as defined in the Listing Rules) must refrain from dealing in the securities of Prosperity REIT as soon as they become aware of them or privy to them until the information has been announced. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not so privy that there may be inside information and that they must not deal in the securities of Prosperity REIT for a similar period.

Pursuant to the Units Dealing Code, Management Persons must not deal in any securities of Prosperity REIT on any day on which Prosperity REIT’s financial results are published and:

- (1) during a period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (2) during a period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-yearly results or, if shorter, the period from the end of the relevant quarter or half-year period up to the publication date of the results;

unless the circumstances are exceptional, for example, the exceptional circumstances as described in the Compliance Manual. The Management Persons must comply with the procedures set out in the Units Dealing Code.

Specific enquiry has been made with the Management Persons, executive officers and other employees of the REIT Manager, who confirmed that they have complied with the required standard set out in the Units Dealing Code save as an unintentional technical breach by a Director, which was remedied and reported to the Chairman immediately.

The REIT Manager has also adopted procedures for monitoring disclosure of interests by the REIT Manager, the Directors and the chief executive of the REIT Manager. The provisions of Part XV of the SFO shall be deemed to apply to the REIT Manager, the Directors, the chief executive of the REIT Manager and each unitholder and all persons claiming through or under him/her.

The Trust Deed contains provisions to deem the application of Part XV of the SFO. Accordingly, unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify the SEHK and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to the Trustee. The REIT Manager keeps a register for the purposes of maintaining disclosure of interests in units of

## Corporate Governance (continued)

Prosperity REIT and it has recorded in the register, against a person's name, the particulars provided pursuant to the disclosure of interests notifications and the date of entry of such record. The said register is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the REIT Manager.

## Matters to be Decided by Unitholders by Special Resolution

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of unitholders by way of special resolution. Such matters include: (i) change in the REIT Manager's investment policies for Prosperity REIT; (ii) disposal of any land or an interest, option or right over any of the land forming part of the assets of Prosperity REIT or shares in any special purpose vehicles holding such land, option or right over any of the land for Prosperity REIT within two years of acquisition of such land; (iii) any increase in the rate above the permitted limit or change in structure of the REIT Manager's management fees; (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (v) certain modifications of the Trust Deed; (vi) termination of Prosperity REIT; and (vii) merger of Prosperity REIT. The unitholders may also, by way of special resolution (i) remove Prosperity REIT's auditors and appoint other auditors or (ii) remove the Trustee or the REIT Manager. The quorum for passing a special resolution is two or more unitholders present in person or by proxy registered as holding together not less than 25% of the units of Prosperity REIT in issue.

## Changes of Directors' Information

Subsequent to publication of the 2013 Interim Report of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

1. Mr. Lim Hwee Chiang ceased to be a non-executive director of APN Property Group Limited, a company listed in Australia, with effect from 29 November 2013.
2. Mrs. Sng Sow-Mei ceased to be a director of INFA Systems Ltd with effect from 5 September 2013. As at 31 December 2013, Mrs. Sng had also relinquished her position as Senior Consultant (International Business) of Singapore Technologies Electronics Ltd and an Non-executive Independent Director and member of the Audit Committee of ARA Trust Management (Suntec) Limited, the manager of Suntec REIT, which is listed on the Main Board of Singapore Exchange Securities (SGX-ST).

## Review of Annual Report

The annual report of Prosperity REIT for the Reporting Year has been reviewed by the Audit Committee and the Disclosures Committee.

## Public Float of the Units

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2013.

## Connected Party Transactions

Set out below is the information in respect of the connected party transactions involving Prosperity REIT and its connected persons as defined in paragraph 8.1 of the REIT Code during the Reporting Year:

### Connected Party Transactions — Income

The following table sets forth information on all the connected party transactions from which Prosperity REIT derived its income during the Reporting Year:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the year ended 31 December 2013 HK\$	Rental deposit received as at 31 December 2013 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>3</sup>	1,449,180	400,863
Hutchison Telephone Company Limited	Associate of a significant holder <sup>2</sup>	Licence of property of Prosperity REIT <sup>4</sup>	91,200	24,096
<b>Total</b>			<b>1,540,380</b>	<b>424,959</b>

Notes:

- <sup>1</sup> Significant holder being Cheung Kong (Holdings) Limited ("**Cheung Kong**").
- <sup>2</sup> The connected party is 49% owned by Hutchison Whampoa Limited ("**HWL**"), which in turn is 49.9% owned by a significant holder of Prosperity REIT, namely Cheung Kong.
- <sup>3</sup> For 2/F, Units 302–3, 306–7, New Treasure Centre.
- <sup>4</sup> For installation of micro-transmission station equipment at Prosperity Place and indoor antennae at Harbourfront Landmark.

Connected Party Transactions (continued)

## Connected Party Transactions — Building Management Services

The following table sets forth information in relation to building management services provided by the connected parties for the properties of Prosperity REIT during the Reporting Year:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/receivable for the year ended 31 December 2013 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	177,447
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	7,098
Citybase Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	278,665
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	65,509
Harbourfront Landmark Premium Services Limited <sup>1</sup>	Associate of a significant holder <sup>3</sup>	Remuneration of DMC Manager	359,042
<b>Total</b>			<b>887,761</b>

Notes:

- 1 These managers appointed under the respective deeds of mutual covenant of the properties of Prosperity REIT (the "DMC Manager") are connected parties by virtue of their relationship with Cheung Kong.
- 2 They are the carpark managers of certain properties of Prosperity REIT (the "Carpark Manager") as delegated by Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT pursuant to a property management agreement dated 29 November 2005, as modified, amended and/or extended from time to time.
- 3 Significant holder being Cheung Kong.

## Connected Party Transactions — Expenses

The following table sets forth information on all the connected party transactions in which Prosperity REIT incurred its expenses (other than the building management fees and other charges of the building accounts mentioned above) during the Reporting Year:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2013 HK\$
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder <sup>1</sup>	Property management and lease management fee	7,835,907
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder <sup>1</sup>	Marketing service fee	8,202,833
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Carpark lease agency fee	1,964,455
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	2,488,826
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	41,353,233
Cheung Kong Companies <sup>2</sup>	Associates or subsidiaries of a significant holder <sup>1</sup>	Back-office support service fee	51,561
<b>Total</b>			<b>61,896,815</b>

Notes:

1 Significant holder being Cheung Kong.

2 Cheung Kong Companies include Randash Investment Limited and Hutchison Hotel Hong Kong Limited.

## Connected Party Transaction with HSBC Group\* for Bank Deposits

Prosperity REIT has engaged The Hongkong and Shanghai Banking Corporation Limited, the holding company of the Trustee, to provide ordinary banking and financial services (namely, bank deposits and interest earned therefrom) during the Reporting Year.

Note:

\* HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Prosperity REIT).

Connected Party Transactions (continued)

## Other Connected Party Transactions

The following companies had provided back-office services, carpark management services and property management services to Prosperity REIT during the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2013 were as follows:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	3,265,633
Goodwell Property Management Limited	4,264,755
E-Park Parking Management Limited	346,366
Citybase Property Management Limited	228,981
Harbourfront Landmark Premium Services Limited	671,956
<b>Total</b>	<b>8,777,691</b>

## Confirmation by the INEDs

The INEDs confirm that they have reviewed the terms of all relevant connected party transactions including those connected party transactions with the HSBC Group and that they are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of Prosperity REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Prosperity REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them (if any) on terms that are fair and reasonable and in the interests of the unitholders of Prosperity REIT as a whole.

## Confirmation by the Auditor of Prosperity REIT

Messrs. Deloitte Touche Tohmatsu, auditor of Prosperity REIT, was engaged to report on Prosperity REIT and its subsidiaries' continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services disclosed by Prosperity REIT and its subsidiaries from pages 65 to 68 of the Annual Report in accordance with the waiver from strict compliance with disclosure requirements under Chapter 8 of the REIT Code granted by the SFC. A copy of auditor's letter has been provided by Prosperity REIT to the SFC.

## Confirmation by the REIT Manager and the Trustee of corporate finance transaction with the HSBC Group

Both the REIT Manager and the Trustee confirm that there is no corporate finance transaction and other connected party transaction (save and except for those disclosed hereinabove) with the HSBC Group during the Reporting Year.

## Repurchase, Sale or Redemption of Units

During the Reporting Year, other than the disposal of 10,951,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

## Holding of Connected Persons in the Units of Prosperity REIT

The following persons, being connected persons (as defined under the REIT Code) of Prosperity REIT, held units of Prosperity REIT:

Name	As at 31 December 2013		As at 31 December 2012
	Number of Units	Percentage of Unitholdings <sup>5</sup>	Number of Units
Total Win Group Limited <sup>1</sup>	176,328,129	12.63%	176,328,129
Wide Option Investments Limited <sup>1</sup>	98,883,559	7.08%	98,883,559
HKSCC Nominees Limited <sup>2</sup>	1,034,899,908	74.12%	1,018,342,848
HSBC <sup>3</sup>	250	0.00002%	250
ARA Asset Management (Prosperity) Limited <sup>4</sup>	5,360,975	0.38%	879

Notes:

1 *Total Win Group Limited ("Total Win") was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2013. Total Win was a direct wholly-owned subsidiary of Cheung Kong Investment Company Limited, which was therefore deemed to hold 176,328,129 units held by Total Win as at 31 December 2013. Total Win is an indirect wholly-owned subsidiary of Cheung Kong.*

*Wide Option Investments Limited ("Wide Option") was a connected person of Prosperity REIT as it was an associate (as defined under the REIT Code) of Total Win as at 31 December 2013. Wide Option was a wholly-owned subsidiary of HWL, which in turn was 49.9% owned by Cheung Kong.*

*Cheung Kong was therefore deemed to hold 275,211,688 units as at 31 December 2013, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.*

2 *HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2013. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.*

## Connected Party Transactions (continued)

- 3 *HSBC Holdings plc. and other members of its group (“HSBC”) were connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee, was an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 31 December 2013 and 31 December 2012. The directors, senior executives, officers and their associates of the Trustee were not beneficially interested in any units as at 31 December 2013 and 31 December 2012. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 250 units as at 31 December 2013 and 31 December 2012.*
- 4 *ARA Asset Management (Prosperity) Limited was a connected person of Prosperity REIT as it was the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2013.*
- 5 *The total number of issued units as at 31 December 2013 is 1,396,178,197.*

Save as disclosed above, the REIT Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT holding any units of Prosperity REIT as at 31 December 2013.

## Holdings of the REIT Manager, Directors and Chief Executive of the REIT Manager in the Units of Prosperity REIT

As at 31 December 2013, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed are as follows:

Name	Number of Units		Percentage of Unitholdings <sup>Note</sup>
	Direct Interest	Indirect Interest	
ARA Asset Management (Prosperity) Limited	5,360,975	—	0.38%

Note:

*The total number of issued units as at 31 December 2013 is 1,396,178,197.*

Save as disclosed above, none of the Directors and chief executive of the REIT Manager had any interest in the units of Prosperity REIT as at 31 December 2013.



# Valuation Report

OUR REF: 20747  
17 FEBRUARY 2014

The Directors  
ARA Asset Management (Prosperity) Limited  
(as Manager of Prosperity REIT)  
Unit 5508–5510, 55th Floor  
The Center  
99 Queen’s Road Central  
Hong Kong

HSBC Institutional Trust Services (Asia) Limited  
(as Trustee of Prosperity REIT)  
17th Floor, Tower 2 and 3  
HSBC Centre  
1 Sham Mong Road  
Kowloon

**Re: Valuation of Various Properties in Relation to Prosperity Real Estate Investment Trust (“Prosperity REIT”)**

Dear Sirs,

## Instructions

With reference to your instruction to conduct a valuation of various properties in relation to Prosperity REIT, we have prepared a valuation report setting out our opinion of the Market Value of the subject properties. We confirm that we have independently prepared the report on a fair and unbiased basis and have carried out inspection of the subject properties, made relevant enquiries and obtained such further information as we consider necessary to allow us to provide you with our opinion of value, as at 31 December 2013, for accounting, mortgage security and testing financial covenants purposes.

## Basis of Valuation

Our valuations are on the basis of Market Value, which is defined by the HKIS Valuation Standards as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion”.

## Valuation Standards

The valuation has been carried out in accordance with the RICS Valuation — Professional Standards incorporating the International Valuation Standards (March 2012) published by the Royal Institution of Chartered Surveyors and The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors; the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of The Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in April 2013.

Valuation Report (continued)

## Valuation Rationale

We have valued the subject properties on the basis of Income Capitalisation Approach by capitalising supplied net rental income (exclusive of management fees) on a fully leased basis. We have cross-checked by sales evidences available on the market. In the purposes of this valuation, we consider the Income Capitalisation Approach is the most appropriate valuation method for assessing the Market Values of the subject properties, given its income driven nature of the subject properties.

## Income Capitalisation Approach

Income Capitalisation Approach estimates the values of the subject properties on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. In calculating the net rental income, no deduction has been made from the net passing rental income which is exclusive of property management fee.

In this valuation method, the total rental income is divided into a current passing rental income over the existing lease term (the Term Income) and a potential future reversionary rental income over the residual land use term (the Reversionary Income). The Term Value involves the capitalisation of the current passing rental income over the existing lease term. The Reversionary Value is taken to be current market rental income upon the expiry of the lease over the residual land use rights term and is capitalised on a fully leased basis. It is then discounted back to the date of valuation.

In this approach, we have considered the Term Yield and Reversionary Yield. The Term Yield is used for capitalisation of the current passing rental income as at the valuation date whilst the Reversionary Yield is used to convert reversionary rental income.

## Direct Comparison Approach

Our valuation has then been cross-checked by the Direct Comparison Approach assuming sales of the subject properties in their existing state and by making reference to comparable sale transactions as available in the relevant market. By analysing sales which qualify as "arms-length" transactions, between willing buyers and sellers, relevant adjustments are made when comparing such sales against the subject properties.

## Title Investigations

We have not been provided with extracts from title documents relating to the subject properties but have conducted searches at the Land Registry. We have not, however, been provided with the original documents to verify the ownership, nor to ascertain the existence of any amendments which may not appear on our searches. We do not accept any liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

## Sources of Information

All investigations have been conducted independently and without influence from any third parties in any way. We have relied to a considerable extent on the information provided by ARA Asset Management (Prosperity) Limited and have accepted advice given to us on such matters as tenancy schedules, statutory notices, easements, tenure, floor areas, building plans and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by ARA Asset Management (Prosperity) Limited that no material factors or information have been omitted or withheld from the information supplied and we consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuations are reasonable.

## Site Measurement

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the subject properties but have assumed that the areas shown on the documents and plans provided to us are correct.

## Site Inspection

We have inspected the exteriors of the subject properties. However, we have not carried out investigations to determine the suitability of ground conditions and services, etc. Our valuations have been prepared on the assumption that these aspects are satisfactory.

Moreover, no structural surveys have been undertaken, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the subject properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the utility services.

## Assumptions and Caveats

Our valuations have been made on the assumption that the seller sells the subject properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect their values although they are subject to the lease agreements.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the subject properties nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the subject properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

This report is for the use of the Manager, the Trustee of Prosperity REIT, the potential subscribers of units in Prosperity REIT and the banks, financial institutions and creditors (and their agents) that have or will provide financing to Prosperity REIT and for the purpose indicated, and no liability to any third party can be accepted for the whole or any part of the contents of the document.

Valuation Report (continued)

Our Summary of Values, Valuation Certificates and Market Overview are attached hereto.

Yours faithfully,  
For and on behalf of  
**Colliers International (Hong Kong) Ltd**

**David Faulkner**

*BSc(Hons) FRICS FHKIS RPS(GP) MAE*  
Executive Director  
Valuation & Advisory Services — Asia

*Note: David Faulkner is a Chartered Surveyor and has over 31 years' experience in the valuation of properties of this magnitude and nature, and over 26 years' experience in Hong Kong/China.*

**Stella Ho**

*MSc BSc (Hons) MRICS MHKIS RPS (GP)*  
Director  
Valuation and Advisory Services

**Holly Wan**

*MSc BSc(Hons) MRICS MHKIS*  
Senior Manager  
Valuation and Advisory Services

## Valuation Summary

Properties	Approx. Gross Area (sq ft)	No. of CPS (lots)	Market Value in its existing state as at 31 December 2013
1. The Metropolis Tower	271,418	98	HK\$2,943,000,000
2. Prosperity Millennia Plaza	217,955	43	HK\$1,725,000,000
3. Commercial Units of Harbourfront Landmark	77,021	Nil	HK\$461,000,000
4. Prosperity Place	240,000	83	HK\$1,402,000,000
5. Trendy Centre	173,764	79	HK\$912,000,000
6. Portion of Prosperity Center	149,253	105	HK\$786,000,000
7. Portion of New Treasure Centre	86,168	22	HK\$289,000,000
<b>Total</b>	<b>1,215,579</b>	<b>430</b>	<b>HK\$8,518,000,000</b>

Valuation Report (continued)

## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2013	Estimated Net Property Yield
1 The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon  24,734/247,769th undivided parts or shares of and in Kowloon Inland Lot No. 11077.	<p>The Metropolis Tower (the "Property") is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/carparking podium on a registered site area of approximately 50,058 sq m (538,824 sq ft). The Property was built in 2001.</p> <p>The Metropolis Tower is office portion of the comprehensive mixed-use complex, called The Metropolis. The Metropolis comprises other components including a shopping centre (Fortune Metropolis), two 18-storey residential towers (The Metropolis Residence) and a 12-storey hotel (Harbour Plaza Metropolis).</p> <p>The Property comprises the entire office units from the 11th to 28th Floors of The Metropolis Tower with a total gross area of approximately 25,215.35 sq m (271,418 sq ft). The total saleable area is approximately 18,832.87 sq m (202,717 sq ft).</p> <p>The Property also comprises 98 carparking spaces within the retail/carparking podium of the development.</p> <p>Kowloon Inland Lot No. 11077 is held under Conditions of Grant No. 12444 for a term from 14 February 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p>	<p>The office portion of the Property is let under various tenancies for various terms with the latest expiry in September 2016. Total net monthly rental income is approximately HK\$7,920,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 97.6% (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$311,000 from January 2013 to December 2013 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$2,943,000,000	3.4%

## Notes:

- (1) *The registered owners of the Property are as follows:*

Floors	Registered Owner
11th Floor and 6 carparking spaces	Wisdom Champion Limited
12th Floor and 6 carparking spaces	Wisdom Champion (12) Limited
15th Floor and 6 carparking spaces	Wisdom Champion (15) Limited
16th Floor and 6 carparking spaces	Wisdom Champion (16) Limited
17th Floor and 6 carparking spaces	Wisdom Champion (17) Limited
18th Floor and 6 carparking spaces	Wisdom Champion (18) Limited
19th Floor and 6 carparking spaces	Wisdom Champion (19) Limited
20th Floor and 7 carparking spaces	Wisdom Champion (20) Limited
21st Floor and 7 carparking spaces	Wisdom Champion (21) Limited
22nd Floor and 7 carparking spaces	Wisdom Champion (22) Limited
23rd Floor and 7 carparking spaces	Wisdom Champion (23) Limited
25th Floor and 7 carparking spaces	Wisdom Champion (25) Limited
26th Floor and 7 carparking spaces	Wisdom Champion (26) Limited
27th Floor and 7 carparking spaces	Wisdom Champion (27) Limited
28th Floor and 7 carparking spaces	Wisdom Champion (28) Limited

- (2) *The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.*
- (3) *The Property lies within an area zoned "Other Specified Uses (For "Commercial Development and Freight Yard" only)" under Hung Hom Outline Zoning Plan S/K9/24.*
- (4) *In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.*
- (5) *Estimated net property yield is based on the net monthly rental income for December 2013 and the average gross monthly car parking income for the period of January 2013 to December 2013.*

## Valuation Report (continued)

- (6) *Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:*

**Tenancy Commencement Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2011 & before	24,334	9.2%	634,000	8.0%	14	15.2%
2012	134,562	50.8%	3,893,300	49.2%	35	38.1%
2013	106,101	40.0%	3,392,700	42.8%	43	46.7%
<b>Total</b>	<b>264,997</b>	<b>100.0%</b>	<b>7,920,000</b>	<b>100.0%</b>	<b>92</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2013 & 2014	44,444	16.8%	1,246,700	15.7%	22	23.9%
2015	148,074	55.9%	4,343,500	54.9%	50	54.4%
2016 & Beyond	72,479	27.3%	2,329,800	29.4%	20	21.7%
<b>Total</b>	<b>264,997</b>	<b>100.0%</b>	<b>7,920,000</b>	<b>100.0%</b>	<b>92</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
Below and up to 2 years	28,215	10.6%	878,500	11.1%	14	15.2%
More than 2 years and up to 3 years	236,782	89.4%	7,041,500	88.9%	78	84.8%
More than 3 years	—	—	—	—	—	—
<b>Total</b>	<b>264,997</b>	<b>100.0%</b>	<b>7,920,000</b>	<b>100.0%</b>	<b>92</b>	<b>100.0%</b>



## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2013	Estimated Net Property Yield
2 Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong  3,741/10,000th undivided parts or shares of and in Inland Lot No. 8885.	<p>Prosperity Millennia Plaza (the "Property") is a 32-storey office building (including 3 mechanical floors and a refuge floor) together with a 2-level basement carport. It is erected on portion of a site with a registered site area of approximately 3,404 sq m (36,641 sq ft). The Property was built in 1999.</p> <p>The 2-level basement of the Property is for carparking and ancillary purposes. The 1st Floor (Ground floor is omitted from floor numbering) is used for lobby and circulation purposes whereas the remaining upper floors from the 2nd to 32nd Floors (4th, 13th, 14th and 24th floor numbers are omitted) are for office uses.</p> <p>The Property comprises the entire office units with a total gross area of approximately 20,248.51 sq m (217,955 sq ft). The total saleable area is approximately 14,551.28 sq m (156,630 sq ft).</p> <p>The Property also comprises 43 carparking spaces within the 2-level basement.</p> <p>Inland Lot No. 8885 is held under Conditions of Exchange No. 12374 for a term from 24 January 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p>	<p>The office portion of the Property is let under various tenancies for various terms with the latest expiry in March 2017. Total net monthly rental income is approximately HK\$5,120,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property is currently 99.1% occupied (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$260,000 from January 2013 to December 2013 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$1,725,000,000	3.7%

### Notes:

- (1) *The registered owner of the Property is Conestoga Limited.*
- (2) *The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.*
- (3) *The Property lies within an area zoned "Commercial" under North Point Outline Zoning Plan S/H8/24.*
- (4) *In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.*
- (5) *Estimated net property yield is based on the net monthly rental income for December 2013 and the average gross monthly car parking income for the period of January 2013 to December 2013.*

## Valuation Report (continued)

- (6) *Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:*

**Tenancy Commencement Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2011 & before	41,536	19.2%	875,180	17.1%	19	23.2%
2012	115,132	53.3%	2,720,800	53.2%	33	40.2%
2013	59,295	27.5%	1,520,950	29.7%	30	36.6%
<b>Total</b>	<b>215,963</b>	<b>100.0%</b>	<b>5,116,930</b>	<b>100.0%</b>	<b>82</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2013 & 2014	117,471	54.4%	2,650,580	51.8%	44	53.7%
2015	67,343	31.2%	1,633,350	31.9%	28	34.1%
2016 & Beyond	31,149	14.4%	833,000	16.3%	10	12.2%
<b>Total</b>	<b>215,963</b>	<b>100.0%</b>	<b>5,116,930</b>	<b>100.0%</b>	<b>82</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
Below and up to 2 years	59,642	27.6%	1,395,600	27.3%	26	31.7%
More than 2 years and up to 3 years	147,608	68.4%	3,471,730	67.8%	54	65.9%
More than 3 years	8,713	4.0%	249,600	4.9%	2	2.4%
<b>Total</b>	<b>215,963</b>	<b>100.0%</b>	<b>5,116,930</b>	<b>100.0%</b>	<b>82</b>	<b>100.0%</b>

## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2013	Estimated Net Property Yield
3	Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, 11 Wan Hoi Street, Hung Hom, Kowloon	The Property comprises commercial portion on 3rd, 5th and 6th floors within a mixed-use development called Harbourfront Landmark, which comprises three blocks of 50 to 60-storey residential towers built over a level of clubhouse, 3 levels of commercial podium and 2 levels of carparking (including a basement). It is erected on a registered site area of approximately 7,402 sq m (79,675 sq ft), and was built in 2001.	HK\$461,000,000	3.8%
	7,031/74,479th undivided parts or shares of and in Kowloon Inland Lot No. 11055.	The Basement and the Lower 1st Floor of the development are used for carparking purposes whilst the upper 1st Floor is for lobby and circulation purposes. The 3rd to 6th Floors (4th floor number is omitted) are for commercial uses whilst the 7th Floor of the development is for a clubhouse. The remaining upper floors of the 3 residential towers are for domestic uses.		
		The Property comprises the three commercial floors within the development with a total gross area of approximately 7,155.43 sq m (77,021 sq ft). The total saleable area is approximately 5,875.98 sq m (63,249 sq ft).		
		Kowloon Inland Lot No. 11055 is held under Conditions of Sale No. UB12460 for a term from 3 June 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.		

### Notes:

- (1) The registered owner of the Property is Harbour Champ Limited.
- (2) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The Property lies within an area zoned "Residential (Group A) (Sub-group 3)" under Hung Hom Outline Zoning Plan S/K9/24.
- (4) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2013.

## Valuation Report (continued)

- (6) *Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:*

**Tenancy Commencement Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2011 & before	77,021	100.0%	1,457,900	99.9%	3	75.0%
2012	—	—	1,600	0.1%	1	25.0%
2013	—	—	—	—	—	—
<b>Total</b>	<b>77,021</b>	<b>100.0%</b>	<b>1,459,500</b>	<b>100.0%</b>	<b>4</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2013 & 2014	77,021	100.0%	1,457,900	99.9%	3	75.0%
2015	—	—	1,600	0.1%	1	25.0%
2016 & Beyond	—	—	—	—	—	—
<b>Total</b>	<b>77,021</b>	<b>100.0%</b>	<b>1,459,500</b>	<b>100.0%</b>	<b>4</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
Below and up to 2 years	—	—	—	—	—	—
More than 2 years and up to 3 years	77,021	100.0%	1,459,500	100.0%	4	100.0%
More than 3 years	—	—	—	—	—	—
<b>Total</b>	<b>77,021</b>	<b>100.0%</b>	<b>1,459,500</b>	<b>100.0%</b>	<b>4</b>	<b>100.0%</b>

## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2013	Estimated Net Property Yield
4 Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon  Kun Tong Inland Lot No. 62.	<p>Prosperity Place (the "Property") is a 27-storey commercial building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,858.06 sq m (20,000 sq ft). The Property was built in 1996.</p> <p>Prosperity Place has been granted a waiver letter in September 2012 with transformation from industrial/office uses to commercial uses under the revitalization of industrial buildings policy by the Government.</p> <p>Ground Floor of the building is for entrance lobby, commercial and loading/unloading purposes; 1st and 2nd Floors of the building are for carparking and/or loading/unloading purposes; whereas the remaining upper floors from the 3rd to 29th Floors (4th, 14th and 24th floor numbers are omitted) are for commercial purposes.</p> <p>The Property comprises the entire commercial units with a total gross area of approximately 22,296.54 sq m (240,000 sq ft). The total saleable area is approximately 14,754.09 sq m (158,813 sq ft).</p> <p>The Property also consists of a total of 83 carparking spaces within the building.</p> <p>Kun Tong Inland Lot No. 62 is held under a Government Lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p>	<p>The commercial portion of the Property is let under various tenancies for various terms with the latest expiry in July 2017. Total net monthly rental income is approximately HK\$3,580,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 100% (including the leasing office but excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$315,000 from January 2013 to December 2013 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$1,402,000,000	3.3%

### Notes:

- (1) The registered owner of the Property is Bandick Limited.
- (2) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The Property lies within an area zoned "Other Specified Uses (For "Business" only)" under Approved Kwun Tong (South) Outline Zoning Plan S/K14S/18.

## Valuation Report (continued)

- (4) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2013 and the average gross monthly car parking income for the period of January 2013 to December 2013.
- (6) According to Memorandum (change of name of building) dated on 12 June 2009, registered vide Memorial No. 09071001040025, the building name of the Property (i.e. "Modern Warehouse") has been changed to "Prosperity Place".
- (7) The Property is subject to a waiver letter dated 19 September 2012, registered vide Memorial No. 12100801240017. The Property shall not be used or allowed or suffered to same to be used for any purpose other than for the Permitted Purposes during the Waiver Period which will be expired upon the demolition of the Property/on the 30th day of June 2047/upon the earlier termination of the Lease before the expiry of its term. The Permitted Purposes included commercial bathhouse/massage establishment, eating place, education institution, exhibition or convention hall, information technology and telecommunications industries, institutional use (excluding social welfare facility), off-course betting centre, office, place of entertainment, place of recreation, sports or culture, private club, public utility installation, radar, telecommunications electronic microwave repeater, television and/or radio transmitter installation, research, design and development centre, school (excluding free-standing purpose-designed building and kindergarten), shop and services, training centre.
- (8) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces and leasing office of 1,762 sq ft) is set out below:

**Tenancy Commencement Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2011 & before	39,522	16.6%	467,415	13.0%	16	12.4%
2012	112,202	47.1%	1,569,145	43.8%	69	53.5%
2013	86,514	36.3%	1,547,287	43.2%	44	34.1%
<b>Total</b>	<b>238,238</b>	<b>100.0%</b>	<b>3,583,847</b>	<b>100.0%</b>	<b>129</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2013 & 2014	127,579	53.6%	1,714,558	47.9%	73	56.6%
2015	71,778	30.1%	1,136,911	31.7%	40	31.0%
2016 & beyond	38,881	16.3%	732,378	20.4%	16	12.4%
<b>Total</b>	<b>238,238</b>	<b>100.0%</b>	<b>3,583,847</b>	<b>100.0%</b>	<b>129</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
Below and up to 2 years	54,102	22.7%	850,520	23.7%	36	27.9%
More than 2 years and up to 3 years	168,734	70.8%	2,455,282	68.5%	91	70.5%
More than 3 years	15,402	6.5%	278,045	7.8%	2	1.6%
<b>Total</b>	<b>238,238</b>	<b>100.0%</b>	<b>3,583,847</b>	<b>100.0%</b>	<b>129</b>	<b>100.0%</b>

## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2013	Estimated Net Property Yield
5 Trendy Centre, 682 Castle Peak Road, Cheung Sha Wan, Kowloon  New Kowloon Inland Lot No. 6224.	<p>Trendy Centre (the "Property") is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,393.50 sq m (15,000 sq ft). The Property was built in 1998.</p> <p>Portion of the Ground Floor and 1st to 3rd Floors are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor is used for lobby and retail shops. The upper floors from the 5th to 33rd floors (4th, 13th, 14th and 24th floor number is omitted) are designed for industrial/office purposes.</p> <p>The Property comprises the entire units within the building with a total gross area of approximately 16,143.07 sq m (173,764 sq ft). The total saleable area is approximately 10,934.23 sq m (117,696 sq ft).</p> <p>The Property also consists of 79 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 6224 is held under Conditions of Exchange No. 12399 for a term from 24 July 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p>	<p>The industrial/office portion of the Property is let under various tenancies for various terms with the latest expiry in November 2016. Total net monthly rental income of approximately HK\$2,620,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 100% (including the leasing office but excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$376,000 from January 2013 to December 2013 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$912,000,000	3.9%

### Notes:

- (1) *The registered owner of the Property is Top Easy Profits Limited.*
- (2) *The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.*
- (3) *The Property lies within an area zoned "Other Specified Uses (For "Business 1" Only)" under Cheung Sha Wan Outline Zoning Plan S/K5/B4.*

## Valuation Report (continued)

- (4) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2013 and the average gross monthly car parking income for the period of January 2013 to December 2013.
- (6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces and leasing office of 1,412 sq ft) is set out below:

**Tenancy Commencement Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2011 & before	37,330	21.7%	488,650	18.6%	30	19.0%
2012	58,822	34.1%	960,520	36.6%	65	41.1%
2013	76,200	44.2%	1,174,100	44.8%	63	39.9%
<b>Total</b>	<b>172,352</b>	<b>100.0%</b>	<b>2,623,270</b>	<b>100.0%</b>	<b>158</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2013 & 2014	80,863	46.9%	1,142,670	43.6%	82	51.9%
2015	60,169	34.9%	991,600	37.8%	52	32.9%
2016 & Beyond	31,320	18.2%	489,000	18.6%	24	15.2%
<b>Total</b>	<b>172,352</b>	<b>100.0%</b>	<b>2,623,270</b>	<b>100.0%</b>	<b>158</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
Below and up to 2 years	52,292	30.3%	792,600	30.2%	53	33.6%
More than 2 years and up to 3 years	118,690	68.9%	1,805,970	68.9%	104	65.8%
More than 3 years	1,370	0.8%	24,700	0.9%	1	0.6%
<b>Total</b>	<b>172,352</b>	<b>100.0%</b>	<b>2,623,270</b>	<b>100.0%</b>	<b>158</b>	<b>100.0%</b>



## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2013	Estimated Net Property Yield
6 Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon (see note (1))  12,014/22,510th undivided parts or shares of and in Kwun Tong Inland Lot No. 729.	<p>The Property comprises various office/workshop units and retained areas within Prosperity Center, which is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,889 sq m (20,333 sq ft), and was built in 1999.</p> <p>Portion of the Ground Floor, 2nd to 5th Floors of the building (1st and 4th floor numbers are omitted) are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor and upper floors from the 6th to 30th Floors (13th, 14th and 24th floor numbers are omitted) are for office/workshop purposes.</p> <p>The Property comprises portion of Prosperity Center with a total gross area of approximately 13,865.94 sq m (149,253 sq ft). The total saleable area is approximately 10,095.60 sq m (108,669 sq ft).</p> <p>The Property also consists of 105 carparking spaces comprising 91 private carparking spaces, 13 lorry parking spaces and 1 container parking space within the building.</p> <p>Kwun Tong Inland Lot No. 729 is held under Conditions of Exchange No. 12317 for a term from 6 August 1994 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p>	<p>The office/workshop portion of the Property is let under various tenancies for various terms with the latest expiry in October 2017. Total net monthly rental income of approximately HK\$1,980,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 99.2% (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$317,000 from January 2013 to December 2013 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$786,000,000	3.5%

## Notes:

- (1) The Property comprises Units G01, G02, G03, G05 and G06 on Ground Floor, Units 601–610 on 6th Floor, the whole of 7th Floor, 801–810 on 8th Floor, 901–910 on 9th Floor, 1001–1010 on 10th Floor, 1101–1110 on 11th Floor, 1201–1210 on 12th Floor, 1501–1510 on 15th Floor, 1701 and 1707–1710 on 17th Floor, 1801–1810 on 18th Floor, 1901–1910 on 19th Floor, 2007–2010 on 20th Floor, 2310 on 23rd Floor, 2601–2603, 2605 and 2607–2610 on 26th Floor, 2701–2706 and 2708–2710 on 27th Floor, 2805–2806 on 28th Floor, 2901–2907 on 29th Floor (Unit No. 04 is omitted in each floor), the Retained Areas on 6th Floor, 8th–12th Floors, 15th–16th Floors, 18th–19th Floors, 23rd Floor, 25th–27th Floors and 105 carparking spaces, Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon.

## Valuation Report (continued)

(2) The registered owners of the Property are set out below:

Property	Registered Owner
Units 1001–1010 on 10th Floor and Units 2601–2603 and 2605 on 26th Floor	Winrise Champion Limited
The remainder of the Property	Prodes Company Limited (the beneficial owner is Winrise Champion Limited)

(3) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (excluding units 1001–1010 on 10th Floor and units 2601–2603 and 2605 on 26th Floor).

(4) The Property lies within an area zoned "Other Specified Uses (For "Business" only)" under Approved Kwun Tong (South) Outline Zoning Plan SIK14S/18.

(5) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.

(6) Estimated net property yield is based on the net monthly rental income for December 2013 and the average gross monthly car parking income for the period of January 2013 to December 2013.

(7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2011 & before	15,447	10.4%	196,000	9.9%	9	12.3%
2012	66,918	45.2%	943,000	47.6%	37	50.7%
2013	65,659	44.4%	843,301	42.5%	27	37.0%
<b>Total</b>	<b>148,024</b>	<b>100.0%</b>	<b>1,982,301</b>	<b>100.0%</b>	<b>73</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2013 & 2014	66,575	45.0%	781,001	39.4%	31	42.4%
2015	46,697	31.5%	663,500	33.5%	28	38.4%
2016 & Beyond	34,752	23.5%	537,800	27.1%	14	19.2%
<b>Total</b>	<b>148,024</b>	<b>100.0%</b>	<b>1,982,301</b>	<b>100.0%</b>	<b>73</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
Below and up to 2 years	50,056	33.8%	591,101	29.8%	20	27.4%
More than 2 years and up to 3 years	87,440	59.1%	1,196,200	60.3%	52	71.2%
More than 3 years	10,528	7.1%	195,000	9.9%	1	1.4%
<b>Total</b>	<b>148,024</b>	<b>100.0%</b>	<b>1,982,301</b>	<b>100.0%</b>	<b>73</b>	<b>100.0%</b>

## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2013	Estimated Net Property Yield
7 Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon (see note (1))  11,163/26,198th undivided parts or shares of and in New Kowloon Inland Lot No. 4864.	<p>The Property comprises various factory units within New Treasure Centre, which is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,304.35 sq m (14,040 sq ft), and was built in 1995.</p> <p>Portion of the Ground Floor and Mezzanine of the building are for carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floors (4th, 14th and 24th floor numbers are omitted) are used for factory purposes.</p> <p>The Property comprises portion of New Treasure Centre, with a total gross area of approximately 8,005.20 sq m (86,168 sq ft). The total saleable area is approximately 5,947.70 sq m (64,021 sq ft).</p> <p>The Property also consists of flat roof areas on the 1st Floor with a total area of approximately 401.99 sq m (4,327 sq ft) and 22 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 4864 is held under Government Lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p>	<p>The factory portion of the Property is let under various tenancies for various terms with the latest expiry in September 2016. Total net monthly rental income of approximately HK\$830,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property is currently 100% occupied (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$143,000 from January 2013 to December 2013 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$289,000,000	4.0%

## Notes:

- (1) *The Property comprises Units 101 (and portion of Flat Roof adjacent thereto), 103 (and portion of Flat Roof adjacent thereto) and 107 on 1st Floor, 201–203, 205–207 on 2nd Floor, 301–303, 306 and 307 on 3rd Floor, 501–503, 505–507 on 5th Floor, 603, 606 and 607 on 6th Floor, 703 on 7th Floor, 801–803, 806 and 807 on 8th Floor, 1005 on 10th Floor, 1201–1203, 1205 and 1207 on 12th Floor, 1302, 1303 and 1306 on 13th Floor, 1506 and 1507 on 15th Floor, 1602, 1603, 1605 and 1607 on 16th Floor, 1702, 1703, 1705–1707 on 17th Floor, 1801–1803 and 1805–1807 on 18th Floor, 2202, 2203 and 2205 on 22nd Floor, 2301–2303, 2306 and 2307 on 23rd Floor, 2706 and 2707 on 27th Floor, 2803 on 28th Floor, 2903, 2906 and 2907 on 29th Floor and 22 carparking spaces, New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon.*
- (2) *The registered owner of the Property is Haskins Investments Limited.*

## Valuation Report (continued)

- (3) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (4) The Property lies within an area zoned "Other Specified Uses (For "Business" only)" under Approved Tsz Wan Shan, Diamond Hill and San Po Kong Outline Zoning Plan S/K11/25.
- (5) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (6) Estimated net property yield is based on the net monthly rental income for December 2013 and the average gross monthly car parking income for the period of January 2013 to December 2013.
- (7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

**Tenancy Commencement Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2011 & before	6,412	7.4%	60,500	7.3%	3	5.9%
2012	47,550	55.2%	441,030	53.3%	25	49.0%
2013	32,206	37.4%	325,200	39.4%	23	45.1%
<b>Total</b>	<b>86,168</b>	<b>100.0%</b>	<b>826,730</b>	<b>100.0%</b>	<b>51</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2013 & 2014	39,208	45.5%	374,330	45.3%	26	51.0%
2015	39,591	45.9%	378,900	45.8%	20	39.2%
2016 & beyond	7,369	8.6%	73,500	8.9%	5	9.8%
<b>Total</b>	<b>86,168</b>	<b>100.0%</b>	<b>826,730</b>	<b>100.0%</b>	<b>51</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
Below and up to 2 years	43,634	50.6%	421,930	51.0%	31	60.8%
More than 2 years and up to 3 years	42,534	49.4%	404,800	49.0%	20	39.2%
More than 3 years	—	—	—	—	—	—
<b>Total</b>	<b>86,168</b>	<b>100.0%</b>	<b>826,730</b>	<b>100.0%</b>	<b>51</b>	<b>100.0%</b>

## Grade A Office Market Overview

### 1. Introduction

Hong Kong has succeeded in transforming itself from a small industrial-based city into a regional financial hub by capitalising on its centralised geographical location in the region, well-established legal system and simple tax regime. The open-door policy adopted by Mainland China and the continued economic development in the Pearl River Delta (PRD) region has further solidified the role of Hong Kong as the financial and business centre in the region. Given its strategic location and transparency, Finance, Insurance, Real Estate ("FIRE"), Service and Trading related companies have been the key market players in the Hong Kong office market.

In 4Q 2013 China's economic growth was experiencing a moderate slowdown and there are increasing concerns regarding the US Federal Reserve moving closer to reducing its stimulus package as well as on going political manoeuvring in relation to US government spending and its debt ceiling. High rental volatility in the Central district in Hong Kong was observed reflecting the external market conditions. The total number of office sales transactions with a total consideration of more than HK\$30 million edged down by 14% quarter-on-quarter (QoQ) in 4Q 2013. Nonetheless, supported by buying interest from end-users and long-term investors, the total value of office sales transactions with a total consideration of HK\$30 million or above increased by 85% QoQ, totalling HK\$5.6 billion.

### 2. Grade A Office Stock

Grade A office stock in Hong Kong has continuously increased over the past decades with a long-term average supply of 2.2 million sq ft per annum. According to the Hong Kong Rating and Valuation Department (RVD), the total Grade A office stock in Hong Kong was recorded at 74.25 million sq ft at the end of 2012, which accounted for 63% of the total office stock. RVD expects that there will be additional supply of Grade A office in 2013 and 2014 with 1.32 million sq ft and 1.42 million sq ft respectively.

According to the RVD, the majority of Grade A office stock is concentrated in Central with about 17.43 million sq ft (23.48% of the total Grade A office stock). In terms of other sub-districts, Tsim Sha Tsui had Grade A office stock of 8.50 million sq ft (11.45%), Island East (North Point/Quarry Bay) had 7.95 million sq ft (10.07%), Kwun Tong had 11.72 million sq ft (15.79%) and Kwai Tsing/Tsuen Wan had 2.58 million sq ft (3.48%) at the end of 2012.

### 3. Grade A Office Supply, Take up and Vacancy

There will be no significant easing on the current tight supply situation with only five new office developments with about 0.9 million sq ft of net floor area due for completion in 2013. New Grade A office supply in 2013 includes 181 Hoi Bun Road development (Kwun Tong) with about 262,650 sq ft, Rykadan Capital Tower (Kwun Tong) with about 189,765 sq ft, 10 Shing Yip Street (Kwun Tong) with about 209,368 sq ft, 6 Wang Kwong Road (Kowloon Bay) with about 224,900 sq ft and 8 Connaught Place (Central) with about 40,700 sq ft.

In 2014, the sub district of Kowloon East (Kwun Tong/Kowloon Bay) will be the major source of new supply, providing a total of 0.88 million sq ft of Grade A office space. Given that there is no new supply in Tsim Sha Tsui and Island East, no serious competition is expected for these two districts during the next few years.

## Valuation Report (continued)

With occupiers remaining cautious on the external environment, overall Grade A net absorption contracted by 713,300 sq ft QoQ in 4Q 2013. In fact, all major submarkets recorded negative net take-up on Hong Kong Island with fewer expansions and most tenants seeking renewal during 4Q 2013. In Central, demand was largely underpinned by smaller sized requirements, but with an increasing share of tenants referring to other cost-savings options, net absorption has fallen by 69,800 sq ft. Take-up in Causeway Bay and Quarry Bay edged down the most with the impending start of the redevelopment projects of Sunning Plaza and Somerset House. Net take-up in these submarkets declined by 305,300 sq ft QoQ and 473,800 sq ft QoQ respectively.

Outside Hong Kong Island, market conditions were generally more positive. Tsim Sha Tsui and Kowloon East were the only submarkets recording a positive net take-up in 4Q 2013. Net take-up in Tsim Sha Tsui increased by 35,200 sq ft QoQ while new lettings in the shipping/trading sector, and some initial relocation of government departments, have enabled take-up in Kowloon East to rise by 110,700 sq ft QoQ in 4Q 2013. In fact, benefitting from increased demand for cost-saving alternatives, some tenants are exploring more economic options in the area, net take-up in November 2013 (91,500 sq ft) even surpassed the overall take-up rate in the first ten months of 2013 (83,200 sq ft).

#### 4. Grade A Office Rentals

In Central, demand for small office units accounted for the majority of new lettings in 4Q 2013. Office units falling in the size bracket below 5,000 sq ft were particularly in demand by newly set up companies in Hong Kong (consisting of 4–5 persons), business centers and mainland institutions. These smaller sized requirements somewhat cushioned the decreased demand from traditional tenants in the banking and financial services sector. According to the latest figures released by the Census and Statistic Department, the number of persons engaged in the financial service sector stayed largely the same with a slight increase of 1.4% YoY in 3Q 2013.

Other than Tsim Sha Tsui and Kowloon East, where rents were pushed down by 0.8% and 1.9% QoQ respectively in 2H 2013, office rents in all districts remained flat or experienced mild rental growth in the order of 0.5% QoQ. The majority of the stock newly listed for lease actually was from Kowloon East and Kwai Chung where a number of new buildings were completed in 2013. The average Grade A office rent in Kowloon East is HK\$36.9/month/sq ft and has remained stable over the last 12 months.

#### 5. Forecast

Looking into 2014, office rents in Kowloon East are expected to see a mild adjustment over the next 12 months due to new office supply scheduled to enter the Kowloon market starting from 2014 and more investors putting their units up for lease amid an inactive investment market. On Hong Kong Island, office rents in Central are expected to remain fairly flat (with a small decline of 0.5% over the next 12 months) while rental growth in Island East will be slightly higher by 3.1% during the period due to the sustained demand for office space with large floor plates in the district. Overall Grade A office rents are expected to edge down by 1.1% over the next 12 months as leasing demand is expected to stay put and as leasing activity will largely be dominated by cost-savings requirements. The Central market will remain stable while Wan Chai, Causeway Bay and Island East will see a light upward shift in rent due to increased demand and lack of supply. Tsim Sha Tsui and in particular Kowloon East will experience a mild correction due to previous rises and the continued supply of new space entering the market.

Long-term investors are likely to set their sight across the harbour as Hong Kong's traditional core business district can no longer satisfy the growing demand for office space – with a distinct lack of large floor plate, single landlord buildings in the pipeline on Hong Kong Island until 2017. For long-term investors, development opportunities in places such as Kowloon East, which has been earmarked by the government to become a secondary CBD area, will look more favourable, with the Lands Department yet to offer more commercial sites for public tender as well as other infrastructure developments set for completion over the upcoming years.

## Industrial Market Overview

### 1. Introduction

The external trade environment remains challenging given the tepid recovery of advanced economies, the slower growth in the emerging markets and the uncertainties arising from the US monetary policy and fiscal issues. The three-month moving average of total export growth slowed from 6.4% YoY in 2Q 2013 to 3.0% YoY in 3Q 2013. Re-export levels continued to grow in 4Q 2013, totalling over HK\$3.5 trillion for the year representing a 3.9% YoY growth. Supported by positive growth in total exports and re-export, industrial rents edged up marginally quarter-on-quarter (QoQ) in 4Q 2013.

The market as a whole has seen more owners looking into the potential of their single-owned industrial buildings, which are eligible for wholesale conversion to other uses or redevelopment under the industrial building revitalisation scheme. As of the end of November 2013, 116 applications had been received by the Lands Department since the launch of the new measures, including 100 applications for conversion and 16 for redevelopment.

Hong Kong industrial properties can be classified into three types, such as Flatted Factories, I-O Buildings and Warehouses. In this report, we will mainly cover the Flatted Factory and I-O Building sectors, which are relevant to the subject properties.

### 2. Industrial Stock

According to the RVD, the total Flatted Factory stock was recorded at 184 million sq ft at the end of 2012. Flatted Factory stock has increased with a long-term average annual supply of 2.7 million sq ft (on an internal floor area basis) per annum since the late 1980's. The largest amounts of stock are located in Kwai Tsing (19.3%) and Kwun Tong (18.8%).

On the other hand, I-O Building stock reached 6.4 million sq ft at the end of 2012 with a long-term average annual supply of 0.3 million sq ft since 1994. About 38.9% of the total I-O Building stock was concentrated in Kwun Tong, followed by stock in Sham Shui Po (22.2%) and Kwai Tsing (15.2%) at the end of 2012.

### 3. Industrial Supply and Vacancy

There are four industrial buildings that are expected to be completed in 2013 and 2014, adding 1.3 million sq ft of additional floor space to the market upon their completions.

The increase in demand from end-users and investors for industrial premises due to the industrial building revitalisation scheme has stimulated individual developers to redevelop old industrial buildings. During the period from 2006 to 2012, the average new supply of private industrial was about 0.5 million sq ft per year. Although there is new stock due to be completed, its impact on the overall vacancy level is anticipated to be mild as the existing private industrial stock is about 185 million sq ft.

### 4. Industrial Rental

Supported by growth in local and international trade, Flatted Factory and I-O buildings market experienced expansion, rents increased by about 2% QoQ in 4Q 2013 thanks to the positive spill over effect from the decentralised office market.

Valuation Report (continued)

## 5. Forecast

On the global trade front, economists from the World Trade Organisation predict world trade growth to accelerate from 2.5% in 2013 to 4.5% in 2014. Hong Kong's external trade performance will benefit from a gradual pick up in global trade. Looking forward the value of total exports is expected to increase 7% in 2014, up from about 4% in 2013. On the back of positive growth in total exports, Flatted Factory and I-O building rents are expected to increase 3% over the next 12 months.

In view of a slow sales market, the Government's cooling measures remaining in place and potential price corrections ahead, individual vendors are willing to dispose of properties at above-market yield levels to exit from their property investments. Looking forward, in view of sustained end-user demand, the price performance of high quality premises is anticipated to be more resilient. For those premises without potential for redevelopment or conversion to other uses, prices are anticipated to see larger downward pressure. The prospective buyers for this group of premises will look for higher yield levels to compensate for the increased transaction cost due to the double stamp duty measure.



## Report of the Trustee

We hereby confirm that, in our opinion, the manager of Prosperity Real Estate Investment Trust has, in all material respects, managed Prosperity Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 29 November 2005, as amended by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011, for the financial year ended 31 December 2013.

**HSBC Institutional Trust Services (Asia) Limited**

*in its capacity as the trustee of Prosperity Real Estate Investment Trust*

Hong Kong, 4 March 2014

# Independent Auditor's Report

## **TO THE UNITHOLDERS OF PROSPERITY REAL ESTATE INVESTMENT TRUST**

*(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

We have audited the consolidated financial statements of Prosperity Real Estate Investment Trust ("Prosperity REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 97 to 130, which comprise the consolidated statement of financial position as at 31 December 2013, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets attributable to unitholders, consolidated statement of cash flows and distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Manager's Responsibility for the Consolidated Financial Statements

ARA Asset Management (Prosperity) Limited (the "REIT Manager" of Prosperity REIT) is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the Trust Deed dated 29 November 2005 (as amended) (the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "Code") issued by the Securities and Futures Commission of Hong Kong, and for such internal control as the REIT Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Appendix C of the Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the REIT Manager, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31 December 2013 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the Code.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 4 March 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
Revenue	5	341,883	308,366
Property management fees		(7,836)	(6,948)
Property operating expenses	6	(67,116)	(61,947)
Total property operating expenses		(74,952)	(68,895)
<b>Net property income</b>		<b>266,931</b>	<b>239,471</b>
Interest income		25	84
Manager's fee		(41,353)	(36,837)
Trust and other expenses	7	(9,834)	(7,060)
Increase in fair value of investment properties		550,591	947,720
Finance costs	8	(41,967)	(43,590)
<b>Profit before taxation and transactions with unitholders</b>		<b>724,393</b>	<b>1,099,788</b>
Taxation	9	(28,664)	(25,073)
<b>Profit for the year, before transactions with unitholders</b>		<b>695,729</b>	<b>1,074,715</b>
Distribution to unitholders		(209,056)	(186,868)
<b>Profit for the year, after transactions with unitholders</b>		<b>486,673</b>	<b>887,847</b>
<b>Other comprehensive income – Item that may be reclassified subsequently to profit or loss:</b>			
Change in fair value of cashflow hedge		15,035	(10,881)
<b>Total comprehensive income for the year, after transactions with unitholders</b>		<b>501,708</b>	<b>876,966</b>
<b>Income available for distribution to unitholders</b>		<b>209,056</b>	<b>186,868</b>
<b>Basic earnings per unit (HK\$)</b>	10	<b>0.50</b>	0.78

# Distribution Statement

For the year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>695,729</b>	1,074,715
<b>Adjustments:</b>		
Manager's fee	<b>41,283</b>	36,774
Increase in fair value of investment properties	<b>(550,591)</b>	(947,720)
Finance costs	<b>10,126</b>	10,153
Deferred tax	<b>12,509</b>	12,946
<b>Income available for distribution (note (i))</b>	<b>209,056</b>	186,868
<b>Distributions to unitholders:</b>		
HK\$0.0744 (2012: HK\$0.0660) per unit for the six months ended 30 June (note (ii))	<b>103,568</b>	90,844
HK\$0.0751 (2012: HK\$0.0694) per unit for the six months ended 31 December (note (iii))	<b>105,488</b>	96,024
	<b>209,056</b>	186,868
<b>Total distribution per unit (HK\$)</b>	<b>0.1495</b>	0.1354

Notes:

- (i) In accordance with the Trust Deed, Prosperity Real Estate Investment Trust ("Prosperity REIT") is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is ARA Asset Management (Prosperity) Limited (the "REIT Manager")'s stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the relevant financial year.

These adjustments for the current year comprise:

- (a) manager's fees paid/payable in units of HK\$41,283,000 (2012: HK\$36,774,000) out of the total manager's fee of HK\$41,353,000 (2012: HK\$36,837,000) (the differences of HK\$70,000 (2012: HK\$63,000) are paid in cash);
- (b) increase in fair value of investment properties of HK\$550,591,000 (2012: HK\$947,720,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$41,967,000 (2012: HK\$43,590,000) less cash finance cost of HK\$31,841,000 (2012: HK\$33,437,000); and
- (d) deferred tax provision of HK\$12,509,000 (2012: HK\$12,946,000).
- (ii) The distribution per unit of HK\$0.0744 for the six months ended 30 June 2013 (six months ended 30 June 2012: HK\$0.0660) is calculated based on Prosperity REIT's income available for distribution of HK\$103,568,000 (six months ended 30 June 2012: HK\$90,844,000) over 1,391,683,715 units (30 June 2012: 1,375,762,318 units), representing units in issue as at 30 June 2013 plus the number of units issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of 2013. The distribution was paid to unitholders on 18 September 2013.
- (iii) The distribution per unit of HK\$0.0751 for the six months ended 31 December 2013 (six months ended 31 December 2012: HK\$0.0694) is calculated based on Prosperity REIT's income available for distribution of HK\$105,488,000 (six months ended 31 December 2012: HK\$96,024,000) over 1,405,349,897 units (31 December 2012: 1,383,838,170 units), representing units in issue as at 31 December 2013 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the last quarter of the relevant distribution year, and the number of units issued to the REIT Manager for the payment of acquisition fee of HK\$10,100,000 on 22 January 2014.

# Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	8,518,000	7,952,000
<b>Current assets</b>			
Trade and other receivables	12	8,676	7,672
Bank balances and cash	13	58,096	44,305
Total current assets		66,772	51,977
<b>Total assets</b>		<b>8,584,772</b>	<b>8,003,977</b>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	14	17,024	32,059
Secured term loan	15	1,753,549	1,743,423
Deferred tax liabilities	16	145,232	132,723
Total non-current liabilities, excluding net assets attributable to unitholders		1,915,805	1,908,205
<b>Current liabilities</b>			
Trade and other payables	17	154,062	137,365
Amount due to related companies	18	8,778	10,245
Secured revolving loan	15	25,000	20,000
Provision for taxation		3,591	3,081
Manager's fee payable		10,646	9,875
Distribution payable		105,488	96,024
Total current liabilities		307,565	276,590
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>2,223,370</b>	<b>2,184,795</b>
<b>Net assets attributable to unitholders</b>		<b>6,361,402</b>	<b>5,819,182</b>
<b>Units in issue ('000)</b>	19	<b>1,396,178</b>	<b>1,379,867</b>
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	20	<b>4.57</b>	<b>4.24</b>

The consolidated financial statements on pages 97 to 130 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 4 March 2014 and were signed on its behalf by:

Chiu Kwok Hung, Justin

Wong Lai Hung, Mavis

# Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 31 December 2013

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2013	2,894,125	(91,278)	(32,059)	3,048,394	5,819,182
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	—	—	—	695,729	695,729
Distribution paid and payable	—	—	—	(209,056)	(209,056)
	—	—	—	486,673	486,673
Change in fair value of cashflow hedge	—	—	15,035	—	15,035
Total comprehensive income for the year	—	—	15,035	486,673	501,708
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager (note 19)	40,512	—	—	—	40,512
Net assets attributable to unitholders as at 31 December 2013	2,934,637	(91,278)	(17,024)	3,535,067	6,361,402

For the year ended 31 December 2012

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2012, as restated	2,858,584	(91,278)	(21,178)	2,160,547	4,906,675
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	—	—	—	1,074,715	1,074,715
Distribution paid and payable	—	—	—	(186,868)	(186,868)
	—	—	—	887,847	887,847
Change in fair value of cashflow hedge	—	—	(10,881)	—	(10,881)
Total comprehensive income for the year	—	—	(10,881)	887,847	876,966
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager	35,541	—	—	—	35,541
Net assets attributable to unitholders as at 31 December 2012	2,894,125	(91,278)	(32,059)	3,048,394	5,819,182

# Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
<b>Operating activities</b>		
Profit before taxation and transactions with unitholders	724,393	1,099,788
Adjustments for:		
Allowance (reversal) for doubtful debts	117	(106)
Manager's fees paid/payable in units	41,283	36,774
Increase in fair value of investment properties	(550,591)	(947,720)
Interest income	(25)	(84)
Finance costs	41,967	43,590
Operating cashflow before working capital changes	257,144	232,242
Decrease in amount due to related companies	(1,467)	(1,186)
(Increase) decrease in trade and other receivables	(1,121)	699
Increase in trade and other payables	16,697	4,327
Increase in Manager's fee payable	—	2
Cash generated from operations	271,253	236,084
Income tax paid	(15,645)	(9,322)
Net cash from operating activities	255,608	226,762
<b>Investing activities</b>		
Interest received	25	84
Additional expenditure to investment properties	(15,409)	(13,280)
Net cash used in investing activities	(15,384)	(13,196)
<b>Financing activities</b>		
Drawdown of secured revolving loan	123,000	92,000
Repayment of secured revolving loan	(118,000)	(107,000)
Interest payment of term loan and revolving loan	(31,841)	(33,437)
Distribution to unitholders	(199,592)	(173,769)
Net cash used in financing activities	(226,433)	(222,206)
Net increase (decrease) in cash and cash equivalents	13,791	(8,640)
Cash and cash equivalents at beginning of the year	44,305	52,945
<b>Cash and cash equivalents at end of year, represented by bank balances and cash</b>	<b>58,096</b>	<b>44,305</b>

# Notes to the Financial Statements

For the year ended 31 December 2013

## 1 General

Prosperity Real Estate Investment Trust ("Prosperity REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on The Stock Exchange of Hong Kong Limited (the "HKSE") since 16 December 2005. Prosperity REIT is governed by the deed of trust dated 29 November 2005 (as amended) (the "Trust Deed") made between ARA Asset Management (Prosperity) Limited (the "REIT Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

The principal activity of Prosperity REIT and its subsidiaries (the "Group") is to own and invest in a portfolio of commercial properties, comprising office, commercial, industrial/office and industrial buildings located in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit.

The addresses of the registered office of the REIT Manager and the Trustee are Units 5508–5509, 55 Floor, The Center, 99 Queen's Road Central, Hong Kong and 1 Queen's Road Central, Hong Kong, respectively.

The Group has entered into various service agreements in relation to the management of Prosperity REIT and its property operations. The fee structures of these services are as follows:

### (a) Property management fees

Under the Property Management Agreement, the Property Manager, Goodwell-Prosperity Property Services Limited, will receive from each of the property holding subsidiaries a fee of 3% per annum of gross property revenue for the provision of property management services and lease management services.

Gross property revenue means the amount equivalent to the gross revenue less rental related income and car park income.

### (b) Marketing services

For the marketing services, the property holding subsidiaries will pay the Property Manager the following commissions:

- one month's base rent for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of duration of the renewal term; and
- 10% of the total licence fee for securing a licence for duration of less than 12 months.

### (c) Trustee's fees

The Trustee is entitled to receive a trustee's fee not exceeding 0.05% per annum on the value of the real estate properties (subject to a minimum of HK\$50,000 per month), the fee is currently charged at 0.03% per annum.



## 1 General *(continued)*

### (d) Manager's fees

Under the Trust Deed, the REIT Manager is entitled to receive the following remuneration for the provision of asset management services:

#### *Base fee*

The REIT Manager will receive a base fee from Prosperity REIT at 0.4% per annum on the value of the properties on a quarterly basis. The base fee will be paid quarterly in arrears and in the form of units in Prosperity REIT during the first five years after the units are listed on the HKSE. Thereafter, the REIT Manager may elect whether the base fee is to be paid in cash or in units.

#### *Variable fee*

The REIT Manager will receive from each of the property holding subsidiaries a variable fee of 3% of its net property income (before deduction therefrom the base fee and variable fee) on a quarterly basis. The variable fee will be paid in units during the first five years after the units are listed on the HKSE, and thereafter, may elect whether the variable fee is to be paid in cash or in units at the election of the REIT Manager.

## 2 Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for an accounting period that begins on or after 1 January 2013:

Amendments to HKFRSs	Annual Improvement to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (revised 2011)	Employee Benefits
HKAS 27 (revised 2011)	Separate Financial Statements
HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

## 2 Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

### **New and revised standards on consolidation, joint arrangements, associates and disclosures**

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosure of Interests in Other Entities, HKAS 27 (as revised in 2011) Separate Financial Statements and HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards on the Group is set out below.

### **Impact of the application of HKFRS 10**

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) Int-12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over an investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

The application of these standards does not have significant impact on amounts reported in the financial statements.

### **HKFRS 13 Fair Value Measurement**

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

## 2 Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

### HKFRS 13 Fair Value Measurement (continued)

In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures have been extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of HKFRS 13 does not have any material impact on the amounts recognised in the financial statements.

### Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income. Under the amendments to HKAS 1, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income”. The amendments to HKAS 1 retain the opinion to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 requires items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### New and revised HKFRSs issued but not effective

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments <sup>3</sup>
Amendment to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>1</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
HK(IFRIC) — Int 21	Levies <sup>1</sup>
Amendment to HKAS 19	Defined Benefit Plans: Employee Contribution <sup>2</sup>
Amendment to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle <sup>4</sup>
Amendment to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle <sup>2</sup>

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

## 2 Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

### New and revised HKFRSs issued but not effective (continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2014
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2014
- <sup>3</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition. HKFRS 9 was further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

The REIT Manager anticipates that the application of HKFRS 9 may not have significant impact on amounts reported in respect of the financial assets and financial liabilities.

### Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

## 2 Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) *(continued)*

### **Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities** *(continued)*

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities. The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The REIT Manager anticipates that the application of the amendments will have no effect on the Group as Prosperity REIT is not an investment entity.

## 3 Significant Accounting Policies

### **(a) Basis of preparation of financial statements**

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of Prosperity REIT.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements are drawn up in accordance with the relevant provisions of the Trust Deed and include the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 17, and the measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

### 3 Significant Accounting Policies *(continued)*

#### **(a) Basis of preparation of financial statements *(continued)***

- Level 3 inputs are unobservable inputs for the asset or liability.

The REIT Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources, Prosperity REIT has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

#### **(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Prosperity REIT and entities controlled by Prosperity REIT and its subsidiaries. Control is achieved when Prosperity REIT:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Prosperity REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when Prosperity REIT obtains control over the subsidiary and ceases when Prosperity REIT loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date Prosperity REIT gains control until the date when Prosperity REIT ceases to control the subsidiary.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Income and expenses of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by Prosperity REIT.

All intra-group assets and liabilities, income, expenses and cashflow are eliminated in full on consolidation.

#### **(c) Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

### 3 Significant Accounting Policies *(continued)*

#### **(d) Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs (which include origination fees) that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### *Financial assets*

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables, which includes trade and other receivables and bank balances and cash, are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) or payment through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis.

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in economic conditions that correlate with default on receivables.

The carrying amount of the trade receivables is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

### 3 Significant Accounting Policies (continued)

#### (d) Financial instruments (continued)

##### *Impairment of financial assets (continued)*

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### *Financial liabilities*

Debt is classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

In accordance with the Trust Deed, Prosperity REIT has a limited life of 80 years less one day from the date of commencement of Prosperity REIT. The units contain a contractual obligation to its unitholders, upon the termination of Prosperity REIT to distribute a share of all net cash proceeds derived from the sale or realisation of the assets of Prosperity REIT less any liabilities, in accordance with their proportionate interests in Prosperity REIT at the date of its termination.

In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period. This provision in the Trust Deed provides the unitholders with a right to receive distribution which Prosperity REIT has a contractual obligation to pay or declare at least 90% of its distributable income.

Accordingly, the unitholders' funds are compound instruments in accordance with Hong Kong Accounting Standard 32: Financial Instruments: Presentation. Unitholders' fund presented on the consolidated statement of financial position as net assets attributable to unitholders is classified as financial liabilities because the equity component is considered insignificant.

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Other than the net assets attributable to unitholders of Prosperity REIT, non-derivative financial liabilities include trade and other payables, amount due to related companies, secured term and revolving loans, manager's fee payable and distribution payable. They are subsequently measured at amortised cost, using the effective interest method.

##### *Derivative financial instruments and hedging*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.



### 3 Significant Accounting Policies *(continued)*

#### **(d) Financial instruments** *(continued)*

##### *Derivative financial instruments and hedging* *(continued)*

The Group uses interest rate swaps to hedge its exposure against changes in interest rates. Hedging relationships are classified as cash flow hedges when such relationships are used to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability and such variability could affect profit or loss.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedging instruments for cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was accumulated in the hedging reserve is recognised immediately in profit or loss. The hedging reserve is presented as a separate item in the consolidated statement of changes in net assets attributable to unitholders.

##### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly and accumulated in hedging reserve is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

### 3 Significant Accounting Policies *(continued)*

#### **(e) Unit issue costs**

The transaction costs relating to the initial public offering and listing of units of Prosperity REIT are accounted for as a deduction from the proceeds raised to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. Other transaction costs are recognised as an expense.

#### **(f) Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### **(g) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Rental income from operating leases, including rent payable by licensee, is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Rental related income, representing mainly air conditioning fee, management fee and promotion fee are recognised when the services and facilities are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

#### **(h) Borrowings cost**

Borrowing costs directly attributable to the acquisition of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income in the year in which they are incurred.

#### **(i) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 3 Significant Accounting Policies *(continued)*

#### (i) Taxation *(continued)*

The tax currently payable is based on taxable profit for the period. Taxable profit differs from “profit before taxation and transactions with unitholders” as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Financial Statements (continued)  
For the year ended 31 December 2013

## 4 Financial Instruments

### (a) Categories of financial instruments

	2013 HK\$'000	2012 HK\$'000
<b>Loans and receivables</b>		
Trade receivables	633	244
Bank balances and cash	58,096	44,305
	<b>58,729</b>	44,549
<b>Financial liabilities</b>		
<i>Derivative instruments in designated hedge accounting relationships</i>		
Interest rate swap	17,024	32,059
<b>Financial liabilities at amortised costs</b>		
Trade payables	914	723
Amount due to related companies	8,778	10,245
Secured term loan	1,753,549	1,743,423
Secured revolving loan	25,000	20,000
Manager's fee payable	10,646	9,875
Distribution payable	105,488	96,024
	<b>1,904,375</b>	1,880,290
Unitholders' funds	<b>6,361,402</b>	5,819,182

Details of the financial instruments are disclosed in respective notes.

### (b) Financial risks management objectives and policies

The risks associated with the Group's financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### (i) Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate secured term loan (see note 15 for details of these borrowings). The Group manages its exposure to interest rate movements on its bank borrowings by swapping a majority proportion of these borrowings from floating rates to fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in interest rate on its secured term loan. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 14 for details).

## 4 Financial Instruments *(continued)*

### **(b) Financial risks management objectives and policies** *(continued)*

#### **(i) Interest rate risk** *(continued)*

If the interest rates have been higher by 50 basis points and all other variables were held constant, the profit for the year would decrease and other comprehensive income recognised in equity would increase by approximately HK\$1,770,000 (2012: HK\$1,770,000) and HK\$11,000,000 (2012: HK\$18,000,000) respectively arising from unhedged portion of secured term loan and the fair value of interest rate swap, respectively. If the interest rates have been lower by 50 basis points and all other variable were held constant, there would be an equal and opposite impact on the profit and other comprehensive income.

The above sensitivity analysis has been determined based on the exposure to interest rates for variable rate secured term loan and derivative instruments at the end of the reporting period. For variable rate secured term loan, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from reasonably possible change in interest rates.

#### **(ii) Credit risk**

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

To mitigate the risk of financial loss from default, tenants of the rental properties are required to pay three months deposits upon entering the lease. The Group has the right to offset the deposits against the outstanding receivables. There is no credit period given to the tenants of the rental properties. Rental is payable in advance and interest is charged on receivables overdue for more than 10 days at the rate of 12% per annum. In addition, the REIT Manager has delegated the Property Manager responsible for follow up action to recover the overdue debt. The REIT Manager also reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

The credit risk on liquid funds is limited because cash and fixed deposits are placed with reputable financial institutions which are banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

## 4 Financial Instruments *(continued)*

### **(b) Financial risks management objectives and policies** *(continued)*

#### ***(iii) Liquidity risk management***

The REIT Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the REIT Manager observes the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong concerning limits on total borrowings and monitors the level of borrowing to be within the permitted limit.

As at 31 December 2013, the Group has a bank loan facility of HK\$2,200,000,000, (2012: HK\$2,200,000,000) comprising a HK\$1,770,000,000 (2012: HK\$1,770,000,000) term loan and a HK\$430,000,000 (2012: HK\$430,000,000) revolving credit facility. The term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$25,000,000 (2012: HK\$20,000,000) was drawn as at the end of the reporting period. The term loan is repayable five years from 16 August 2010. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity. Certain investment properties, with aggregate carrying value of HK\$8,444,000,000 (2012: HK\$7,885,000,000) have been pledged to secure the banking credit facilities granted to the Group. The Group, with a cash balance of HK\$58,096,000 (2012: HK\$44,305,000) and available unutilised revolving credit facility of approximately HK\$405,000,000 (2012: HK\$410,000,000) as at 31 December 2013, has sufficient financial resources and facilities to satisfy its commitments and working capital requirements.

#### *Liquidity risk*

The following table details the Group's remaining contractual maturity for its financial liabilities except for the unitholders' funds which will be distributed to unitholders upon termination of Prosperity REIT in accordance with the Trust Deed. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

For derivative financial instruments settled on a net basis, undiscounted net cash outflows are presented based on the expected interest payment. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

The secured term loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable in full on 16 August 2015.

## 4 Financial Instruments (continued)

### (b) Financial risks management objectives and policies (continued)

#### (iii) Liquidity risk management (continued)

##### Liquidity risk (continued)

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2013 HK\$'000
<b>2013</b>							
<b>Non-derivative</b>							
Trade payables	—	914	—	—	—	914	914
Tenants' deposits	—	6,195	1,727	31,959	71,636	111,517	111,517
Amount due to related companies	—	8,778	—	—	—	8,778	8,778
Secured term loan	1.19%	1,794	3,385	15,723	1,783,549	1,804,451	1,753,549
Secured revolving loan	1.03%	25,022	—	—	—	25,022	25,000
Manager's fee payable	—	10,646	—	—	—	10,646	10,646
Distribution payable	—	—	—	105,488	—	105,488	105,488
Cash outflow		53,349	5,112	153,170	1,855,185	2,066,816	2,015,892
<b>Derivatives – net settlement</b>							
Interest rate swap, cash outflow		1,149	2,217	10,388	5,982	19,736	17,024
<b>2012</b>							
<b>Non-derivative</b>							
Trade payables	—	723	—	—	—	723	723
Tenants' deposits	—	2,345	3,452	63,695	29,338	98,830	98,830
Amount due to related companies	—	10,245	—	—	—	10,245	10,245
Secured term loan	1.19%	1,819	3,462	16,136	1,804,854	1,826,271	1,743,423
Secured revolving loan	1.09%	20,020	—	—	—	20,020	20,000
Manager's fee payable	—	9,875	—	—	—	9,875	9,875
Distribution payable	—	—	—	96,024	—	96,024	96,024
Cash outflow		45,027	6,914	175,855	1,834,192	2,061,988	1,979,120
<b>Derivatives – net settlement</b>							
Interest rate swap, cash outflow		1,125	2,149	10,130	19,322	32,726	32,059

### (c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input;
- the fair value of derivative instruments is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments; and
- the fair value of unitholders' funds with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices.

The REIT Manager considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Notes to the Financial Statements (continued)  
For the year ended 31 December 2013

## 5 Revenue

	2013 HK\$'000	2012 HK\$'000
Gross rental from investment properties		
Rental income	271,598	241,440
Car park income	20,642	19,680
	<b>292,240</b>	261,120
Rental related income	49,643	47,246
	<b>341,883</b>	308,366

## 6 Property Operating Expenses

	2013 HK\$'000	2012 HK\$'000
Audit fee	1,156	1,107
Back-office support service fee	—	907
Building management fees	31,877	30,477
Car park operating expenses	5,139	3,909
Government rent and rates	274	150
Lease commission	4,717	1,572
Legal cost and stamp duty	1,050	1,152
Marketing service fee	8,203	9,995
Others	1,249	918
Repairs and maintenance	4,459	2,872
Secretarial fee	574	552
Tax fees	225	193
Utilities	8,073	7,914
Valuation fees (paid to principal valuer)	120	229
	<b>67,116</b>	61,947

## 7 Trust and Other Expenses

	2013 HK\$'000	2012 HK\$'000
Acquisition expenses	2,505	—
Audit fee	212	249
Back-office support service fee	52	31
Bank charges	1,215	1,314
Legal and professional fees	130	357
Public relations-related expenses	505	242
Registrar fee	600	600
Trust administrative expenses	2,126	2,099
Trustee's fee	2,489	2,168
	<b>9,834</b>	7,060



## 8 Finance Costs

	2013 HK\$'000	2012 HK\$'000
Interest expense on:		
Secured term loan	28,255	29,976
Equalisation of interest expense through cashflow hedges	13,457	13,401
	<b>41,712</b>	43,377
Secured revolving loan	255	213
	<b>41,967</b>	43,590

## 9 Taxation

	2013 HK\$'000	2012 HK\$'000
Current tax	16,353	12,127
Over-provision in prior year	(198)	—
Deferred tax (note 16)	12,509	12,946
	<b>28,664</b>	25,073

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits or have tax losses brought forward to set off their assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates. The taxation for the year can be reconciled to the profit before taxation and transactions with unitholders as per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 HK\$'000	2012 HK\$'000
Income tax expense at statutory rate of 16.5%	119,525	181,465
Over-provision in prior year	(198)	—
Tax effect of non-taxable income	(90,852)	(156,388)
Tax effect of non-deductible expenses	2,525	1,921
Tax effect of utilisation of tax losses previously not recognised	(174)	(139)
Tax effect of utilisation of deductible temporary differences previously not recognised	(1,698)	(1,559)
Others	(464)	(227)
Taxation for the year	<b>28,664</b>	25,073

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

## 10 Earnings Per Unit

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$695,729,000 (2012: HK\$1,074,715,000) by the weighted average of 1,391,911,584 (2012: 1,375,404,049) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year.

No diluted earnings per unit has been presented as there were no potential units in issue.

## 11 Investment Properties

	2013 HK\$'000	2012 HK\$'000
FAIR VALUE		
At beginning of the year	7,952,000	6,991,000
Additional expenditure	15,409	13,280
Increase in fair value of investment properties	550,591	947,720
At end of the year	8,518,000	7,952,000

All of the Group's property interests in properties located in Hong Kong are held under medium-term leases, which are finance lease in nature, to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

In estimating the fair value of investment properties, it is the Group's policy to engage third party qualified external valuer to perform the valuation. The REIT Manager works closely with the qualified external valuer to establish the appropriate valuation technique and inputs to the model.

On 31 December 2013, an independent valuation on the investment properties was undertaken by Colliers International (Hong Kong) Limited. The firm is an independent qualified professional valuer not connected to the Group and has appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was arrived at using the basis of capitalisation of the net income and cross-checked by sales evidences available on the market. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield, which is the capitalisation rate adopted, is made by reference to the yields derived from analysing the sales transactions and the valuer's knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The adopted capitalisation rates in the valuation range from 3.00% to 3.80% for capitalisation of the current passing rental income over the existing lease term and 3.65% to 4.00% for potential future reversionary rental income. The capitalisation rate is one of the key parameters in the valuation method of income capitalisation and they involve professional judgment in relation to the adjustments made by the independent valuer. Certain of the Group's investment properties as at 31 December 2013, with aggregate carrying value of HK\$8,444,000,000 (2012: HK\$7,885,000,000), have been pledged to secure banking facilities granted to the Group.

## 12 Trade and Other Receivables

	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>752</b>	246
Less: allowance for doubtful debts	<b>(119)</b>	(2)
	<b>633</b>	244
Deposit and prepayments	<b>8,043</b>	7,428
	<b>8,676</b>	7,672

Ageing analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Current-1 month	<b>338</b>	188
2-3 months	<b>295</b>	56
	<b>633</b>	244

The trade receivable balance are past due but not impaired at the reporting date and for which the Group has not provided for impairment loss.

The Group has provided in full all receivables overdue for 120 days after netting off the deposits received from tenant because historical experience is such that receivables that are past due beyond 120 days are generally not recoverable.

Movement in the allowance for doubtful debt:

	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of the year	<b>2</b>	108
Impairment losses recognised (reversed) on receivables	<b>117</b>	(106)
Balance at the end of the year	<b>119</b>	2

## 13 Bank Balances and Cash

	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Cash at bank	<b>58,096</b>	44,305

Cash at bank, with aggregate value of HK\$58,096,000 (2012: HK\$44,305,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

Notes to the Financial Statements (continued)  
For the year ended 31 December 2013

## 14 Derivative Financial Instruments

	2013 HK\$'000	2012 HK\$'000
Cash flow hedges – interest rate swaps		
Non-current liabilities	<b>17,024</b>	32,059

The Group uses interest rate swaps as hedging instruments in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowings from floating rates to fixed rates.

Contract with notional amount of HK\$1,416,000,000 entered in 2010 will mature on 16 June 2015. This contract has fixed interest payments at 1.34% per annum and has floating interest receipts at three months HIBOR for periods until 16 June 2015. The REIT Manager designated that the interest rate swaps are effective hedging instruments.

The above derivatives are measured at fair value at the end of the reporting period. Their fair values are determined based on the discounted future cash flows using the applicable yield curve for the duration of the swap.

The fair value of the derivatives fall under level 2 of the fair value hierarchy and is measured based on inputs other than quoted prices that are observable directly.

## 15 Borrowings

	2013 HK\$'000	2012 HK\$'000
Secured term loan	<b>1,770,000</b>	1,770,000
Origination fees	<b>(16,451)</b>	(26,577)
	<b>1,753,549</b>	1,743,423
Secured revolving loan	<b>25,000</b>	20,000
	<b>1,778,549</b>	1,763,423
Carrying amount repayable:		
Within one year	<b>25,000</b>	20,000
Within a period of more than one year but not exceeding five years	<b>1,753,549</b>	1,743,423
	<b>1,778,549</b>	1,763,423

Under the banking facility agreements, the Group has been granted a facility of HK\$2,200,000,000, comprising a HK\$1,770,000,000 term loan and a HK\$430,000,000 revolving credit facility.

The terms and conditions of the facilities are as follows:

- (i) HK\$1,770,000,000 term loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable in full on 16 August 2015.

## 15 Borrowings *(continued)*

- (ii) HK\$430,000,000 revolving loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable on demand.

Both the term loan and revolving loan are secured by the Group's investment properties as disclosed in note 11. In addition, Prosperity REIT and certain of its subsidiaries provide a guarantee for the term loan and revolving loan granted to a subsidiary.

The fair value of the Group's borrowings, which approximates to the carrying amount, was estimated by discounting their future cash flows at market rate.

The origination fees consist of advisory fee and front-end fee with respect to the banking facility and are included in measuring the borrowings at amortised cost.

## 16 Deferred Tax Liabilities

The followings are the major component of deferred tax liabilities and assets recognised and movements thereon during the year:

	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2012	127,858	(8,081)	119,777
Charge to profit or loss	11,278	1,668	12,946
As at 31 December 2012	139,136	(6,413)	132,723
Charge to profit or loss	11,362	1,147	12,509
As at 31 December 2013	150,498	(5,266)	145,232

At the end of the reporting period, tax loss amounting to approximately HK\$2,705,000 (31 December 2012: HK\$3,757,000) were not recognised, due to unpredictability of future profits stream.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$22,425,000 (2012: HK\$20,157,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Financial Statements (continued)  
For the year ended 31 December 2013

## 17 Trade and Other Payables

	2013 HK\$'000	2012 HK\$'000
Trade payables	914	723
Tenants' deposits		
— Outside parties	111,092	98,405
— Related parties	425	425
Rental received in advance		
— Outside parties	2,555	2,017
Other payables	39,076	35,795
	<b>154,062</b>	137,365

Ageing analysis of the Group's trade payables presented based on invoice date at the end of the reporting period is as follows:

	2013 HK\$'000	2012 HK\$'000
Current—1 month	327	210
2–3 months	376	301
Over 3 months	211	212
	<b>914</b>	723

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the reporting period based on the lease terms amounted to HK\$71,636,000 (2012: HK\$29,338,000).

## 18 Amount due to Related Companies

The amount due to related companies arose from expenses of back-office support services, property management services and car park management services provided by related companies. The amount is unsecured, interest-free and repayable on demand.

## 19 Units in Issue

	Number of units	HK\$'000
Balance as at 1 January 2012	1,360,442,529	2,858,584
Payment of manager's base fee and variable fee through issuance of new units during the year	19,424,572	35,541
Balance as at 31 December 2012	1,379,867,101	2,894,125
Payment of manager's base fee and variable fee through issuance of new units during the year	16,311,096	40,512
Balance as at 31 December 2013	1,396,178,197	2,934,637

## 19 Units in Issue *(continued)*

Subsequent to the end of the reporting period, 4,739,932 units (2012: 3,971,069 units) at HK\$2.2426 (2012: HK\$2.4824) per unit were issued to the REIT Manager as partial settlement of base fee and variable fee for the period from 1 October 2013 to 31 December 2013 and 4,431,768 units at HK\$2.2790 per unit were issued to the REIT Manager as acquisition fee for the acquisition as disclosed in note 28. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 31 December 2013 was HK\$ 2.26 (31 December 2012: HK\$2.35).

## 20 Net Asset Value per Unit attributable to Unitholders

The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$17,024,000 (2012: HK\$32,059,000), and the total number of 1,396,178,197 units in issue as at 31 December 2013 (1,379,867,101 units in issue as at 31 December 2012).

## 21 Major Non-Cash Transaction

During the year, the REIT Manager earned a fee of HK\$41,353,000 (2012: HK\$36,837,000) of which HK\$41,283,000 (2012: HK\$36,774,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$30,654,000 (2012: 26,916,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$10,629,000 (2012: HK\$9,858,000) were paid in units subsequent to the year end.

## 22 Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has considered the following key sources of estimation uncertainty at the end of the reporting period, that would have significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

As described in notes 3(c) and 11, investment properties are stated at fair value based on the valuation performed by an independent professional valuer. In determining the fair value, the valuer has based on a method of valuation which involves certain estimates. In relying on the valuation report, the REIT Manager has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

As described in note 14, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices.

## 23 Net Current Liabilities

At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$240,793,000 (2012: HK\$224,613,000). Other than certain investment properties, with aggregate carrying value of HK\$8,444,000,000 (2012: HK\$7,885,000,000), which have been pledged to secure banking facilities granted to the Group (as disclosed in note 11), the Group has in place a revolving credit facility (as disclosed in note 15) to meet its liabilities as they fall due.

## 24 Total Assets less Current Liabilities

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$8,277,207,000 (2012: HK\$7,727,387,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

## 25 Segmental Reporting

During the year, Prosperity REIT invested in seven office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, portion of Prosperity Center and portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

### Segment revenue and results

For the year ended 31 December 2013

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	113,754	72,787	22,194	49,661	39,909	30,981	12,597	341,883
Segment profit	91,409	58,363	16,942	37,254	30,103	23,431	9,429	266,931
Interest income								25
Manager's fee								(41,353)
Trust and other expenses								(9,834)
Increase in fair value of investment properties								550,591
Finance costs								(41,967)
Profit before taxation and transactions with unitholders								724,393

For the year ended 31 December 2012

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	102,634	64,596	20,866	43,544	37,058	27,901	11,767	308,366
Segment profit	81,943	50,789	16,225	32,836	28,177	20,934	8,567	239,471
Interest income								84
Manager's fee								(36,837)
Trust and other expenses								(7,060)
Increase in fair value of investment properties								947,720
Finance costs								(43,590)
Profit before taxation and transactions with unitholders								1,099,788

The accounting policies of the operating segments are the same as Prosperity REIT's accounting policies described in note 3. Segment profit represents the net property income which is the measure reported to the REIT Manager.



## 25 Segmental Reporting *(continued)*

### Segment assets

The following is an analysis of Prosperity REIT's assets by operating segment:

	2013	2012
	HK\$'000	HK\$'000
The Metropolis Tower	<b>2,943,000</b>	2,773,000
Prosperity Millennia Plaza	<b>1,725,000</b>	1,632,000
Portion of Harbourfront Landmark	<b>461,000</b>	436,000
Prosperity Place	<b>1,402,000</b>	1,301,000
Trendy Centre	<b>912,000</b>	818,000
Portion of Prosperity Center	<b>786,000</b>	726,000
Portion of New Treasure Centre	<b>289,000</b>	266,000
Total segment assets	<b>8,518,000</b>	7,952,000
Other assets	<b>66,772</b>	51,977
Consolidated assets	<b>8,584,772</b>	8,003,977

For the purposes of monitoring segment performances and allocating resources, all investment properties are allocated to operating segments. Other assets and all liabilities, including the bank balances and cash, and borrowings and financial instruments, are unallocated.

## 26 Operating Lease Commitments

	2013	2012
	HK\$'000	HK\$'000
Minimum lease income under operating leases included in the consolidated statement of profit or loss and other comprehensive income	<b>271,598</b>	241,440

	2013	2012
	HK\$'000	HK\$'000
Commitments in respect of non-cancellable operating leases for the rental of investment properties were as follows:		
Future minimum lease payments receivable:		
Within one year	<b>230,707</b>	219,691
In the second to fifth year inclusive	<b>152,597</b>	155,417
Total	<b>383,304</b>	375,108

The Group rents out its investment properties in Hong Kong under operating leases. Operating lease income represents rentals receivable by the Group for its investment properties. Leases are negotiated for term ranging from one to three years with monthly fixed rental.

Notes to the Financial Statements (continued)  
For the year ended 31 December 2013

## 27 Connected and Related Party Transactions

During the year, the Group entered into the following transactions with connected and related parties:

	Note	2013 HK\$'000	2012 HK\$'000
Rent and rental related income from			
E-Park Parking Management Limited	(a)	—	131
Goodwell Property Management Limited	(a)	<b>1,449</b>	1,284
Hutchison Telephone Company Limited	(b)	<b>91</b>	81
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	<b>1,964</b>	1,873
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>7,836</b>	6,948
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>8,203</b>	9,995
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		<b>2,489</b>	2,168
Manager's fee			
ARA Asset Management (Prosperity) Limited		<b>41,353</b>	36,837
Back-office support service fee			
Cheung Kong Companies	(c)	<b>52</b>	938
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Citybase Property Management Limited	(a)	<b>229</b>	664
Goodwell-Prosperity Property Services Limited	(a)	<b>3,266</b>	3,316
Goodwell Property Management Limited	(a)	<b>4,265</b>	5,407
Harbourfront Landmark Premium Services Limited	(b)	<b>672</b>	539
E-Park Parking Management Limited	(a)	<b>346</b>	319
Deposits placed with the Group for the lease of the Group's properties			
Goodwell Property Management Limited	(a)	<b>401</b>	401
Hutchison Telephone Company Limited	(b)	<b>24</b>	24

## 27 Connected and Related Party Transactions *(continued)*

Notes:

- (a) *These companies are the subsidiaries of Cheung Kong (Holdings) Limited ("CKH"), a significant unitholder (defined in the Code on Real Estate Investment Trusts as a holder of 10% or more of the outstanding units) of Prosperity REIT.*
- (b) *These companies are the subsidiaries, associates or jointly controlled entities of Hutchison Whampoa Limited, which is 49.9% owned by CKH and is described as an associate of CKH in the published 2013 interim report of CKH.*
- (c) *These companies are the subsidiaries, associates and jointly controlled entities of CKH, being Randash Investment Limited and Hutchison Hotel Hong Kong Limited. In 2012, it also included Cheung Kong Real Estate Agency Limited and Harbour Plaza Metropolis Limited.*

Under the Code on Real Estate Investment Trusts, the deed of mutual covenant which binds the REIT Manager and all the owners of a development and their successors-in-title which include members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH, for the building management services provided constitutes a connected transaction. During the year, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$888,000 (2012: HK\$821,000).

## 28 Event after the Reporting Period

On 14 December 2013, the Group entered into a share purchase agreement with Cactus Holdings Limited, a subsidiary of Hutchison Whampoa Limited, for the acquisition of an office building located at 9 Chong Yip Street, Kwun Tong through the acquisition of a 100% of the issued share capital of Clifton Properties Limited, for a total cash consideration of HK\$1,010,000,000, which is partly financed by new borrowing facilities of HK\$784,000,000 and the remaining consideration is financed by drawing down on the existing revolving credit facility. The acquisition was completed after the unitholders' approval on 15 January 2014.

## List of Subsidiaries

As at 31 December 2013 and 31 December 2012

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT		Share capital	Principal activities in Hong Kong
		Directly %	Indirectly %		
Bandick Limited	Hong Kong	100	—	HK\$2	Property investment
Conestoga Limited	Hong Kong	—	100	HK\$10,000	Property investment
Haskins Investments Limited	Hong Kong	100	—	HK\$2	Property investment
Harbour Champ Limited	British Virgin Islands	100	—	US\$1	Property investment
Jade Arch Investment Limited	British Virgin Islands	100	—	HK\$15,053	Investment holding
Prodes Company Limited	Hong Kong	—	100	HK\$10	Property owner
Progain Group Limited	British Virgin Islands	100	—	US\$1	Financing
Top Easy Profits Limited	British Virgin Islands	100	—	US\$1	Property investment
Unicenter Limited	British Virgin Islands	100	—	US\$1	Investment holding
Winrise Champion Limited	British Virgin Islands	—	100	US\$1	Property investment
Wisdom Champion Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (12) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (15) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (16) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (17) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (18) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (19) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (20) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (21) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (22) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (23) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (25) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (26) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (27) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (28) Limited	British Virgin Islands	100	—	US\$1	Property investment

None of the subsidiaries had issued debt securities at the end of the year.

# Performance Table

## Results Analysis for the year ended 31 December

	<b>Year ended 31 December 2013 HK\$'000</b>	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2011 HK\$'000	Year ended 31 December 2010 HK\$'000	Year ended 31 December 2009 HK\$'000
Gross rental from investment properties	<b>292,240</b>	261,120	232,517	226,889	222,444
Net property income	<b>266,931</b>	239,471	211,512	212,531	206,900
Profit for the year, before transactions with unitholders <sup>(3)</sup>	<b>695,729</b>	1,074,715	1,151,491	762,714	481,236
Distribution to unitholders	<b>209,056</b>	186,868	163,518	147,831	145,365
Earnings per unit (HK\$) <sup>(3)</sup>	<b>0.50</b>	0.78	0.85	0.57	0.37
Distribution per unit (HK\$)	<b>0.1495</b>	0.1354	0.1202	0.1101	0.1098

Performance Table (continued)

## Major assets and liabilities of Prosperity REIT as at 31 December

	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
Investment properties	<b>8,518,000</b>	7,952,000	6,991,000	5,934,000	5,256,000
Secured bank loans, excluding origination fees	<b>(1,795,000)</b>	(1,790,000)	(1,805,000)	(1,796,000)	(1,770,000)
Net asset value <sup>(3)</sup>	<b>6,361,402</b>	5,819,182	4,906,675	3,876,116	3,221,067
Net asset value per unit (HK\$) <sup>(2)(3)</sup>	<b>4.57</b>	4.24	3.62	2.91	2.47
<b>Other Information</b>					
The highest traded price during the year (HK\$)	<b>3.09</b>	2.42	2.00	1.77	1.38
The highest (discount)/premium of the traded price to net asset value <sup>(3)</sup>	<b>(32.4%)</b>	(42.9%)	(44.8%)	(39.2%)	(44.1%)
The lowest traded price during the year (HK\$)	<b>2.19</b>	1.52	1.33	1.31	0.84
The lowest discount of the traded price to net asset value <sup>(3)</sup>	<b>(52.1%)</b>	(64.2%)	(63.3%)	(55.0%)	(66.0%)
The net yield per unit based on market price at the end of year	<b>6.6%<sup>(1)</sup></b>	5.8%	8.0%	6.3%	8.3%

Notes:

- (1) Based on the distribution per unit of HK\$0.1495 for the year ended 31 December 2013 and the closing market price of HK\$2.26 as at 31 December 2013.
- (2) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve and the total number of units in issue as at year ended date.
- (3) The financial information for the year ended 31 December 2009, 2010 and 2011 have been restated due to the amendments to Hong Kong Accounting Standard 12.

# Investment Properties Portfolio

As at 31 December 2013

Property	Type	Lease term	Lease expiry date	Location	Valuation 2013 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	<b>2,943</b>
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	<b>1,725</b>
Harbourfront Landmark (portion)	C	Medium-term lease	30 June 2047	11 Wan Hoi Street Hung Hom Kowloon Hong Kong	<b>461</b>
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	<b>1,402</b>
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	<b>912</b>
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	<b>786</b>
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	<b>289</b>
<b>Total</b>					<b>8,518</b>

Note: Type of properties: O – Office, C – Commercial, I/O – Industrial/Office, I – Industrial

## Summary Financial Information

Following is a summary of the consolidated statements of profit or loss and other comprehensive income and the consolidated statements of financial position of Prosperity REIT for the past financial years prepared on a basis as consistent to the financial year ended 31 December 2013:

### Consolidated Statements of Profit or Loss and Other Comprehensive Income

	<b>Year ended 31 Dec 2013</b>	Year ended 31 Dec 2012	Year ended 31 Dec 2011	Year ended 31 Dec 2010	Year ended 31 Dec 2009
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<b>341,883</b>	308,366	275,627	270,094	263,624
Profit before taxation and transactions with unitholders	<b>724,393</b>	1,099,788	1,172,849	781,839	497,266
Taxation <sup>(1)</sup>	<b>(28,664)</b>	(25,073)	(21,358)	(19,125)	(16,030)
Profit for the years, before transactions with unitholders <sup>(1)</sup>	<b>695,729</b>	1,074,715	1,151,491	762,714	481,236
Distribution to unitholders	<b>209,056</b>	186,868	163,518	147,831	145,365
Distribution per unit (HK\$)	<b>0.1495</b>	0.1354	0.1202	0.1101	0.1098

### Consolidated Statement of Financial Positions

	<b>2013</b>	2012	2011	2010	2009
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	<b>8,518,000</b>	7,952,000	6,991,000	5,934,000	5,256,000
Current assets	<b>66,772</b>	51,977	61,254	38,095	62,001
Current liabilities	<b>307,565</b>	276,590	271,354	233,388	2,003,485
Net assets attributable to unitholders <sup>(1)</sup>	<b>6,361,402</b>	5,819,182	4,906,675	3,876,116	3,221,067

Note:

(1) The financial information for the year ended 31 December 2009, 2010 and 2011 have been restated due to the amendments to Hong Kong Accounting Standard 12.



# Corporate Information

## Board of Directors of the REIT Manager

Chiu Kwok Hung, Justin  
*Chairman and Non-executive Director*

Lim Hwee Chiang  
*Non-executive Director*

Wong Lai Hung, Mavis  
*Executive Director and Chief Executive Officer*

Ma Lai Chee, Gerald  
*Non-executive Director*

Lan Hong Tsung, David  
*Independent Non-executive Director*

Sng Sow-Mei (alias Poon Sow Mei)  
*Independent Non-executive Director*

Wong Kwai Lam  
*Independent Non-executive Director*

## Company Secretary of the REIT Manager

Seng Sze Ka Mee, Natalia

## Trustee

HSBC Institutional Trust Services (Asia) Limited

## Auditor of Prosperity REIT

Deloitte Touche Tohmatsu

## Principal Valuer

Colliers International (Hong Kong) Limited

## Principal Bankers

DBS Bank Limited  
 Standard Chartered Bank (Hong Kong) Limited  
 Sumitomo Mitsui Banking Corporation  
 The Hongkong and Shanghai Banking Corporation Limited

## Legal Adviser

Baker & McKenzie

## Registered Office

Units 5508–09, 55/F, The Center  
 99 Queen's Road Central  
 Hong Kong

## Unit Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
 Shops 1712–16, 17/F, Hopewell Centre  
 183 Queen's Road East, Wan Chai  
 Hong Kong

## Stock Code

The Stock Exchange of Hong Kong Limited: 808

## Investor Relations

Tel: +852 2169 0928  
 Fax: +852 2169 0968  
 Email: prosperityenquiry@ara.com.hk

## Website

www.prosperityreit.com

## Key Dates

Annual Results Announcement	4 March 2014
Closure of Register of Unitholders for Final Distribution	25 to 28 March 2014 (both days inclusive)
Payment of Final Distribution	4 April 2014
Closure of Register of Unitholders for Annual General Meeting	5 to 9 May 2014 (both days inclusive)
Annual General Meeting	9 May 2014

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of unitholders of Prosperity Real Estate Investment Trust (“**Prosperity REIT**”) will be held at Exhibition Venue A on Level 7, Fortune Metropolis, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong on Friday, 9 May 2014 at 2:30 p.m. for the following purposes:

- (1) To note the audited financial statements of Prosperity REIT together with the Auditors’ Report for the year ended 31 December 2013; and
- (2) To note the appointment of Auditors of Prosperity REIT and the fixing of their remuneration.

By Order of the Board  
**ARA Asset Management (Prosperity) Limited**  
as manager of Prosperity Real Estate Investment Trust  
**Seng Sze Ka Mee, Natalia**  
Company Secretary

Hong Kong, 1 April 2014

Notes:

- (a) *The Register of Unitholders of Prosperity REIT will be closed from Monday, 5 May 2014 to Friday, 9 May 2014, both days inclusive, during which period no transfer of units will be effected. In order to qualify for attending the Annual General Meeting, all unit certificates with completed transfer forms must be lodged with Prosperity REIT’s Unit Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 2 May 2014.*
- (b) *Any unitholder entitled to attend the Annual General Meeting is entitled to appoint a proxy to attend in his/her stead.*
- (c) *In order to be valid, an instrument of proxy, together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, if any, must be deposited at Prosperity REIT’s Unit Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting.*

The annual report 2013 (“Annual Report”) is available in both English and Chinese versions. Unitholders who have received either the English or the Chinese version of the Annual Report may request a copy on the other language by writing to Prosperity REIT’s unit registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, or email to [prosperityreit.ecom@computershare.com.hk](mailto:prosperityreit.ecom@computershare.com.hk).

The Annual Report (in both English and Chinese versions) has been posted on Prosperity REIT’s website at [www.prosperityreit.com](http://www.prosperityreit.com) and the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk). Unitholders who have chosen (or are deemed to have consented) to receive Prosperity REIT’s Corporate Communication (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) by electronic means through Prosperity REIT’s website and who for any reason have difficulty in receiving or gaining access to the Annual Report posted on Prosperity REIT’s website may request a printed copy of the Annual Report free of charge.

Unitholders may at any time change the choice of means of receipt (i.e. in printed form or by electronic means through Prosperity REIT’s website) and/or language of Prosperity REIT’s Corporate Communication by reasonable prior notice in writing to Prosperity REIT’s unit registrar, Computershare Hong Kong Investor Services Limited, either by post or by email to [prosperityreit.ecom@computershare.com.hk](mailto:prosperityreit.ecom@computershare.com.hk).



**Stock Code: 808**

**[www.prosperityreit.com](http://www.prosperityreit.com)**

Manager



ARA Asset Management (Prosperity) Limited

Prosperity REIT is managed by  
ARA Asset Management (Prosperity) Limited



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environmentally friendly paper